S. HRG. 103–827

HEARING TO EXAMINE THE IMPACT OF HEALTH CARE REFORM ON THE SMALL BUSINESS SECTOR

BEFORE THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

ON

EXAMINING THE IMPACT OF HEALTH CARE REFORM ON THE SMALL BUSINESS SECTOR

THURSDAY, MARCH 10, 1994

Printed for the Committee on Small Business

U.S. GOVERNMENT PRINTING OFFICE

83–153 CC WASHINGTON : 1994

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-046256-8

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HEARING TO EXAMINE THE IMPACT OF HEALTH CARE REFORM ON THE SMALL BUSINESS SECTOR

THURSDAY, MARCH 10, 1994

U.S. SENATE,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to notice, at 9:40 a.m., in room SR–428A, Russell Senate Office Building, Hon. Dale Bumpers, Chairman of the Committee, presiding.

OPENING STATEMENT OF HON. DALE BUMPERS, A U.S. SENATOR FROM THE STATE OF ARKANSAS

The CHAIRMAN. Let me first apologize for my tardiness. This is not a made-up excuse; I really did get caught in traffic. Let me make just three or four comments about today's hearing.

First of all, I think it goes without saying that mandated benefits, mandated payments, particularly in the small business community, is about the most controversial part of the health care proposal. Small businesses obviously feel that they are the most affected and they are the ones that are most adamantly opposed to the mandated part of the bill.

Our questions really are quite different today, and they are twofold, possibly you might say threefold, because, number one, the Congress has to decide whether or not the size definition of small business is just about right—the 25, 50 and 75 category, and whether the subsidies in those categories are right, and so on. Should the limit maybe be 150 instead of 75; should we eliminate the 25 and 50 distinction? But you have to arrive at some other decisions before you consider that one.

But let me not get ahead of myself and simply say that if the size definition needs to be changed, we need to know, first, are there going to be jobs lost; and, if so, how many. Also, is the trade-off in this whole bill with regards to lost jobs, worth it?

Many small businesses profess that they will close their doors, but then of course there are others who feel that this plan is a job creator rather than a job coster. Finally, if we decide that small business' complaints are valid, that we should change the definition, we also have to consider if the subsidy should be increased. So we're dealing in trade-offs. Are the benefits worth the cost? Or are the costs overstated by those who feel that they might have to close their doors or may not even get started in business?

To my knowledge, today is the first Senate hearing on these issues. Neither of our witnesses here today profess to be experts in the health care field, nor do they profess to know all there is to know about this legislation. But they know a lot about small business. They know a lot about how the bill is crafted and the impact that it would have on small business, and, of course, that's the purpose for their being here.

Secretary Reich has spent a good portion of his life studying the role of small businesses in our economy. He is eminently qualified to testify on the matters that he will discuss this morning. And our SBA Administrator, Erskine Bowles, who is doing a truly outstanding job, has spent his entire life in venture capital and dealing with small businesses. So we are most honored to have both of them here.

I would defer to my ranking member if he were here. Senator Bond, do you have an opening statement?

STATEMENT OF HON. CHRISTOPHER S. BOND, A U.S. SENATOR FROM THE STATE OF MISSOURI

Senator BOND. Thank you very much, Mr. Chairman. It is a pleasure to join with you in welcoming Administrator Bowles and Secretary Reich. We are delighted to have this opportunity to discuss health care reform and the possible impact on small business with you.

I have heard, as the Chairman has heard, from many, many small businesses who agree that health care reform is necessary but they want free market principles to work to ensure affordability, availability, renewability and portability of health insurance. I'm committed to achieving those goals, but I don't want to see those goals achieved at significant cost to small business and the jobs they create.

The view of the overwhelming majority of small business owners that I have talked to in my State is that the administration's proposal is bad medicine for small business. Now, we recognize that there are Federal subsidies supposedly being made available, and the subsidies may sound appealing to those who are not in small business. But most of the small businesses that I talked to say, on close examination, they do not trust the government to continue subsidies. They think the proposals are arbitrary, they're overly complicated, inequitable.

Some small businesses may be very profitable and may be able to afford health insurance. Unfortunately, it does not necessarily have any relationship to their size. Many people who supply small businesses say that in the small businesses with which they work, the average profit per employee is only about $1700. The mandated health insurance premiums would exceed the amount of the profit per employee.

In my view, if we talk about subsidies to provide health insurance, we ought to be subsidizing low-income individuals. That is good policy. To try to subsidize business is bad policy, because when the costs get out of control, as I believe they will under the administration's plan, the first place Congress is going to be tempted and pushed to cut is in the small business subsidy.

Various questions have been raised by the Chairman on how many jobs the mandate would cost. VHI said the cost of financing health care through mandates would be over $60 billion a year. A range of economists have said anywhere from 600,000 to over 3 million jobs would be lost by the mandates. The National Federation of Independent Businesses suggests that the total might reach 18 million jobs.

In any event, I believe that the thrust of this program as it is now drafted is not small business friendly. Many large businesses who already provide health insurance may like the concept that they will have their costs limited. We all know that we have to do something to get people covered, to stop cost shifting, and this is the major concern of many large businesses.

I submit to you that a far better way to achieve this than mandating businesses of any size and trying to compensate with subsidies is to continue the system which is now working; and that is, where people are covered by insurance, don't mess up a system that works. Provide tax equity so the very smallest business, the independent farmer, for example, the truck driver who is the only employee of the business, can enjoy the same deduction opportunities as the employee of a large, rich corporation: 100 percent deductibility up to the standard cost of a benefit package.

Only 46 percent of the 2.8 million U.S. firms with fewer than ten workers offer health insurance. Almost 75 percent of the employers who do not provide health insurance cite economic reasons and their inability to maintain profitable operations and provide health insurance as the main reason for their failure to do so. We all know that an attractive health insurance program is a great employment benefit. People look for jobs that offer health insurance. It is attractive, along with the wages or salaries paid. That same benefit will remain if we do not mandate employers but seek to get everybody covered.

I believe that we need to go in a different direction, because I am very much concerned that the cost to small business in terms of profitability and, ultimately, what we are most concerned about in the provision of jobs in this country would be greatly compromised by imposing mandates.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Bond. Senator Wellstone?

Senator WELLSTONE. Thank you, Mr. Chairman. I think that since there are a lot——

The CHAIRMAN. If I may, I do not want to deprive anybody. But, Secretary Reich, I understand you have to leave at 11 a.m. Is that correct?

Secretary REICH. Yes. That's correct.

The CHAIRMAN. I hope the Members will bear that in mind.

Senator WELLSTONE. I was about to say that since there are many of us here and we have the Secretary and Administrator, I will try to be very brief. I have a statement that I would like to have put in the record and I will respond to two comments made by my colleague from Missouri.

STATEMENT OF HON. PAUL WELLSTONE, A U.S. SENATOR FROM THE STATE OF MINNESOTA

Senator WELLSTONE. One of them is that, when we talk about being small business friendly, I think we are all committed to that. By the way, Mr. Chairman, I thank you for holding this hearing. I have really been waiting for a long time for this hearing.

I have held a couple of field hearings out in Minnesota with the small business community, one in the metropolitan area and one in rural Minnesota. And over and over again, small businesses come in and they talk about a system right now which is precisely the opposite of user-friendly. What they say is, "We are paying outrageously high premiums for the same or worse coverage than larger companies are able to obtain for their employees." Number one.

Second, they talk about the outrageous administrative expenses. And, third, what they say is that even those that are able to provide coverage are not able to afford a decent package of benefits for their employees.

So I think we should remember that the status quo is unacceptable and precisely the opposite of user-friendly, since all of us are committed to the small business sector of the economy.

My second point—and, boy, there are many points I would like to make but I told you I would be brief. My second point has to do with my colleague's focus, and I think it is an important point he makes about the market and market solution. You know, I think of the small businesses in relation to the health care system in this country kind of the way I see family farmers being squeezed both on the input and the output side where they are about the only competitive portion left in the food industry. Similarly, small businesses right now are faced with something which is quite different from a free-market economy in health care.

All you have to do, in each one of our States, is take a look at the percentage of the health maintenance organizations or managed care plans owned by just a few large insurance companies. It doesn't look much like a free market. It is looking more and more like oligopoly at best and maybe monopoly medicine at worst.

So, somewhere along the line, there has to be some public accountability in a system which is seeing rapid consolidation merger after merger. The Wall Street Journal and New York Times are full of stories about this. And I think small businesses are, in fact, the very sector of the economy that are most vulnerable to this trend. So I hope we can stay focused on that. I would like to see the delivery of health care services remain in the private sector as well.

Finally, Mr. Chairman, later on in the questions portion of the hearing I do want to make the point that I think one of the reasons the Chair of the House Small Business Committee, Mr. LaFalce, is a single-payer supporter is that we need to step up to the plate and have a very simple, straightforward, equitable way of financing this. According to the Congressional Budget Office and every other independent study, single-payer has a way of controlling costs. What I find in the small business community is that they want some evidence that if they are going to have to pay into a program, they will not just see a continued escalation of costs. They do not want health care to be some black hole.

Thank you.
[The prepared statement of Senator Wellstone follows:]

PREPARED STATEMENT OF SENATOR PAUL WELLSTONE FROM THE STATE OF MINNESOTA

Thank you Mr. Chairman. And thank you, Mr. Secretary and Mr. Administrator, for being here. Without stealing thunder I want to note that I have read both of the prepared statements. And I agree absolutely with what I believe is the most compelling point made in each statement: that is, our current health care system is bad for business. It is harming the health of our economy, not just the health of many of our citizens.

Today's hearing is important because the debate over the effects of health care reform on the small business sector is especially important. Why? Because this country's system for covering health care is especially bad for small business. Small business owners know this. And small business employees know this. Second, this sector of the economy has generated most of our new growth and created most of our new jobs in recent years. To do that, we have to promote the health of its employees.

A year and a half ago I conducted two field hearings of this Committee in my State on the topic of small business and health care reform. What I heard then, in both metropolitan and rural Minnesota, is the same thing we will be hearing today:

—Small businesses pay higher premiums for the same or worse coverage than large corporations are generally able to obtain for their employees;

—The administration of employee health care coverage costs proportionally more in both time and money for small businesses; and

—A good package of benefits—indeed, any package of benefits—is far too often beyond reach.

As the chief sponsor here in the Senate of the single-payer approach to health care coverage, I believe, along with many small business owners and employees, that single-payer is the best option for small business. I believe the evidence indicates that single-payer delivers best on the three promises that genuine health care reform can offer to small businesses:

—Real cost containment;
—Administrative simplicity;
—A good package of benefits for all.

I want to focus today on how we can make good on those promises. I look forward to the testimony, and I hope I am able to ask some questions. We may differ on some aspects of how we get to reform, but I am convinced that the President's, and this administration's, commitment to health care reform is genuine. We're all looking for real cost containment and universal coverage with good benefits. I believe single-payer delivers these with the most simplicity. But above all I want to work with this administration and everyone who favors genuine health care reform to pass it this year.

The CHAIRMAN. Thank you.
Senator Burns.

STATEMENT OF HON. CONRAD BURNS, A U.S. SENATOR FROM THE STATE OF MONTANA

Senator BURNS. My apologies, Mr. Chairman. I caught a cold and lost my voice so I will just submit my statement for the record. There are a couple of points that I want to make this morning.

I want to thank the Administrator and the Secretary for coming this morning. I think the Chairman hit the nail on the head in his opening remarks and I just want to reiterate a little. We have not done a very good job of defining the terms that we are using as this debate unfolds.

The Senator from Minnesota wants guaranteed access under a single-payer system. Canada has a single payer system and guarantees access. But where? You have hospitals closing in Canada. You have a situation in Canada that is escalating to the point

where their farmers are driving many, many miles just for the basic medical services and hospitals are closing in rural areas. In fact, in Ontario, they closed all the hospitals over the holidays because they could not make it to the end of their fiscal period with the money they had to operate on. So I do not think that is very desirable for the American people when we start talking about that.

When we try to fashion a law, or mandates, we try to do it with a cookie cutter so that one size fits all. We cannot do that in this country because every State has different needs, has different ways of doing business, has a different outlook. In Montana, 98 percent of my businesses are small businesses. Now, that is not 500 employees or less, that is 20 or 50 employees or less. And this is where the real growth in our economy is coming, in small business. We have already whacked them with a tax deal, and now we come back with mandates on health care.

That is going to come out of whose pocket? It is going to come out of the consumer's pocket, or it is going to come out of the pockets of the working men and women of this country, because business is going to take a look at it and say, I do not care what it costs. But the total cost of an employee is going to be so much. So much of that is going to be benefits; so much is going to be actual cash in his pocket.

When we start talking about mandates, where is this money coming from? Truly, really coming from. In the majority of the cases, it is coming out of the pockets of the working men and women of this country. That is who is going to pull this wagon. That is who has always pulled this wagon. And that is who we should be concerned with here today.

I ask permission to put my statement in the record and I appreciate your opening remarks. Thank you very much.

The CHAIRMAN. Without objection.

[The prepared statement of Senator Burns follows:]

PREPARED STATEMENT OF SENATOR CONRAD BURNS FROM THE STATE OF MONTANA

Mr. Chairman, I truly appreciate your holding this hearing today because this is an issue that is very close to my heart. I have been in small business and know what it is like to try to pay for health insurance. In fact, my wife and I went without insurance for quite some time, thinking we were invincible of course, just to be able to afford it for my employees. I know first hand the burden that is placed on employers when trying to make ends meet and yet having to comply with mandates.

But on top of that, I come from a State in which over 98 percent of our businesses are considered small business. And that does not mean they have fewer than 500 employees . . . they have fewer than 50! These main street businesses are the backbone of Montana's economy and as you know, firms of 20 employees or fewer are responsible for most of our country's recent economic growth. And believe me, I am hearing from them on this issue of health care.

I'd like to give you a couple examples of some of the concerns I hear from small business in my State. One woman wrote me from Billings, Montana. She employs 10 people in a property management firm and pays 25 percent of the monthly premium for her full-time employees. Her annual payroll is $125,000 and her gross income is $200,000—so payroll is by far her largest expense. She says, "If I would have to pay more toward health insurance premiums, I would be forced to let at least one employee go to make up the cost."

One gentleman from Missouri write to me, "The backbone of this country is the small business, and this plan, regardless of the purported subsidies, will send marginal small businesses into bankruptcy . . . in many cases (the cost of health insurance) will be more than the business makes for the owner. Where are they supposed to get the money?"

Another example: an auto body shop in Great Falls by all intents and purposes is a small business, yet the average employee makes more than $24,000. The owner, therefore, would be treated as a big business, possibly having to pay the maximum of 7.9 percent of her payroll. To do this, she would have to increase the hourly wage by $2 an hour. And of course, this gets passed on to the customer. A health care plan financed by huge new taxes and employer mandates will only hurt the economy and destroy jobs. It would be tough to convince me that this is the right direction for our country!

Those are just a few examples, but I've heard from countless others, all with similar stories, and these are business owners who are on the front lines. They are the rubber that's hitting the road. Most of them write with their concerns about the costs, many with the reduction in choice. For those that pay for some of the health costs of their employees, they do not want to lose their ability to choose insurers, choose insurance plans, choose providers, and more importantly, the ability to control costs.

All of these concerns are important to me, but I think the bottom line is COST. How is this plan going to be financed? I've seen the numbers and to me it looks as if it will be financed on the backs of business. Secretary Reich, if I were you, this would be my biggest concern. The problems we face today in our health care system are not the fault of businesses. There is a lot we can do to get the cost of health insurance and health care services down without placing the burden on America's business.

And if our aim is to make sure everybody has health insurance coverage, we are talking about the alleged 37 million who are uninsured. Let's take care of pre-existing conditions, job lock, deductibility for the self-employed, small market purchasing co-ops, malpractice costs, administrative simplification, and yes, welfare reform. We will never have 100 percent coverage, because some people just don't want it. The President's plan would not guarantee 100 percent coverage, so let's do what we can without breaking the system as it now stands. It's working for over 85 percent of our population and we need to remember that.

I am grateful that both Mr. Bowles and Secretary Reich are able to be here this morning and I look forward to hearing what you have to say. I" just close with a poll that was taken by the NFIB, and these are numbers we really need to pay attention to. If forced to purchase health benefits at $150 per month per worker, 73 percent of their members said they would cut or hold down employee wage increases, 26 percent said they would get out of business altogether, and 25 percent said they would eliminate part-time jobs. Those are some strong statistics, folks, and before placing any mandates on small business, lets assess the risk to our economy.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Mack.

STATEMENT OF HON. CONNIE MACK, A U.S. SENATOR FROM THE STATE OF FLORIDA

Senator MACK. Thank you, Mr. Chairman. First of all, I want to thank you for holding this hearing on health care reform and the impact it will have upon owners and employees of small businesses.

As I have traveled throughout Florida, the message from small business owners is clear: mandated employer health care benefits will mean lower wages, fewer jobs, higher prices and more government. The administration's proposed health care reform plan will render small business owners helpless to a massive Federal bureaucracy and stifle their ability to expand small firms and create new jobs.

Let me quote from just a few of the many letters I have received from small business owners in Florida. The first letter. "My sister and I run a company that our father began in 1977. Most of our employees have been with us for 10 or more years. They would much rather have a secure job than a more expensive health care policy mandated by the Federal Government."

The next letter. "Again, it seems as if the employer will be forced to pick up the tab of someone else's 'brilliant' idea."

Another letter. "Even if there are small subsidies to pay for this particular mandate, I will still be forced into making layoffs, raising prices or canceling other employee benefits."

And the last letter. "What must small business owners do to convince the Federal Government that imposed mandates are absolutely strangling commerce? Will they not stop until they actually see the collapse of the U.S. economy?"

I could read letter after letter after letter. The theme remains the same. Small business owners are sick and tired of Washington telling them how they must run their businesses.

I am also deeply concerned about the effect employer mandates would have on part-time and seasonal workers. Florida has many such workers employed in agriculture, tourism, retailing and other important sectors of the economy. Some of my constituents are retired people seeking to supplement their pensions. Others, such as police officers or schoolteachers, have full-time jobs but take on additional work to help support themselves and their families. Others such as agriculture and retail employees are employed in small businesses which are seasonal by nature or currently heavily dependent on part-time work.

These employers and employees are concerned that the health insurance burden created by the proposed reform package will substantially reduce the utility and availability of part-time and seasonal work. One Florida small business owner wrote me, and again I quote, "I am president of a small engineering firm with six full-time and seven part-time employees. Most of my part-time employees are engineering students. Their pay is considerably above the minimum wage. However, if I am forced to provide the gold-plated plan under consideration, I will not hire these part-time students. Rather, I will be forced to hire drafters as full-time employees at minimum wage." What a terrible situation to force upon this small business owner.

I want to ask our witnesses about the manner in which part-time and seasonal employees and their employers are treated under the administration's plan.

In Florida, many senior citizens need the flexibility to work in order to meet expenses. Under the Clinton plan, employers would be required to pay all or part of the 80 percent employer contribution. In essence, we are shifting the cost of Medicare from the Government on to small businesses. Seniors are very concerned this will cause them to be frozen out of the job market.

Again, because of time, I will ask that the balance of my statement be included in the record, Mr. Chairman, but just emphasize this last point. Again, I think shifting some of the cost of Medicare when a small business hires a retiree is the wrong way to be going. There are already enough impediments in the way of retirees to work. One of them is the cap on social security earnings. And I think this is going to be an additional burden on the part of the employer that really takes away an incentive to hire retirees. And I thank the Chairman.

[The prepared statement of Senator Mack follows:]

PREPARED STATEMENT OF SENATOR CONNIE MACK FROM THE STATE OF FLORIDA

Mr. Chairman, I thank you for holding this hearing on health care reform and the impact it will have upon owners and employees of small businesses. As I have traveled throughout Florida, the message from small businesses owners is clear—mandated employer health care benefits will mean lower wages, fewer jobs, higher prices, and more government. The administration's proposed health care reform plan will render small business owners helpless to a massive Federal bureaucracy and stifle their ability to expand small firms and create new jobs.

Let me quote from a few of the many letters I've received from small business owners in Florida:

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I'm also deeply concerned about the effect employer mandated health benefits would have on part-time and seasonal workers. Florida has many such workers employed in agriculture, tourism, retailing and other important sectors of the economy.

Some of my constituents are retired people seeking to supplement their pensions. Others, such as police officers or school teachers, have full-time jobs but take on additional work to help support themselves and their families. Others such as agriculture and retail employees, are employed in businesses which are seasonal by nature or currently heavily dependent on part-time work.

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In Florida, many senior citizens need the flexibility to work in order to meet expenses. Under the Clinton plan, employers would be required to pay all or part of the 80 percent employer contribution. In essence, we are shifting the cost of Medicare from the Government on to small businesses. Seniors are very concerned this will cause them to be frozen out of the job market.

In this important debate about health care reform, the question is not whether we should reform our beleaguered system, but what changes are needed. Small business owners agree with me and others that health care should be reformed through and explosion in consumer choice, not an explosion of government.

Recently, Senator Don Nickles (R–OK) and I, along with 23 of our colleagues, introduced the Consumer Choice Health Security Act of 1993. I firmly believe we have brought before the Senate a creative and comprehensive health care reform plan for all Americans.

The Consumer Choice Health Security Act changes the current system of providing tax relief largely for employer-based insurance and replaces it with a refundable tax credit, which provides direct tax relief to individuals and families regardless of where they acquire their health insurance—from an employer, a union, a church, a hospital or a business group.

One of the most important features of our proposal is individual Americans, instead of their employers, would "own" their health care policies, the policies would be portable—changes in career or circumstance would no longer affect coverage. Since there is no employer mandate, this plan encourages job creation instead of the job destruction resulting from the President's plan.

By solving the portability problem and providing needed insurance reforms such as the elimination of preexisting condition clauses, insurance companies will have an important incentive to keep people healthy. Currently, insurance companies have no incentive to treat their policyholders as anything other than transitory customers. They have no reason to invest resources in individuals. With this legislation, insurance companies will recognize that they may have "customers for life," and will concentrate their efforts on preventive services such as regular checkups and cancer screenings, an issue of great importance to me.

I also believe that individual ownership of policies will promote more cost conscious consumption of health care. Cost containment starts with the users of health care services, and empowering them to make the decisions, not government bureaucrats, will help slow the explosion in health care costs.

I come from a family that has been forced to confront the health care issue personally. My wife, our daughter, my mother and I are all cancer survivors. My brother, Michael, died of cancer in 1979. During the difficult moments of our illnesses, we worked with our doctors to choose the treatments that were best for us. We had a choice and so should all Americans.

In short, the legislation I have sponsored will empower Americans to make choices about health care plans and providers. Individuals can make these decisions just as they arrive at any other important decision, like what kind of house to buy, what mortgage to obtain, the amount of insurance to carry—and the list goes on and on.

Our health care system, which accounts for one-seventh of our economy, is the most innovative in the world. We have the best providers, the best hospitals, and the highest quality medical technology. Most importantly, we have choice. These positive forces, which separate our system from others, must be preserved as we strive to correct the problems within the system. An employer mandate would wipe out the possibility for these positive forces, increase unemployment, and stifle the ability of small businesses to grow and prosper.

The CHAIRMAN. Thank you, Senator Mack.

Senator Chafee.

STATEMENT OF HON. JOHN H. CHAFEE, A U.S. SENATOR FROM THE STATE OF RHODE ISLAND

Senator CHAFEE. Thank you, Mr. Chairman. First, I am glad you are holding this hearing. I, like most people here, probably have the same situation. That is, there is a hearing in the Finance Committee on health care reform that I am anxious to go to, so if I leave it will only be for that reason.

Mr. Chairman, if I might, I would like to put my statement in the record and just cite a couple of facts from it.

In our State, 70 percent of our employees work for small businesses, so this is a big issue for us.

The CHAIRMAN. Senator Chafee, are you talking about small businesses as defined in the Clinton proposal?

Senator CHAFEE. By the standard definition of 100 employees or fewer. That is what I used in this statistic.

I believe, Mr. Chairman, small businesses do have reason to be alarmed about the Clinton proposal, which of course, as we all know, will mandate that the employer would pay 80 percent of the health care costs for the employees.

I would like to share this study with Secretary Reich and the Administrator. This deals with Hawaii, and it is from the Kaiser Foundation. This is what they have reported. This is in connection with the mandate that exists in Hawaii. Forty percent of the em-

ployers had to reduce their work force; 53 percent restricted wages; 60 percent raised prices; 33 percent reduced other employee benefits. Again, let me repeat. Forty percent had to reduce their work force; 53 percent restricted wages; 60 percent raised prices; 33 percent reduced other employee benefits.

Now I must say the raising of the prices, whether that was due to health care or whether it was due to inflation who knows. But anyway, if the Secretary at some point could address these statistics if he is familiar with them, and, if not, perhaps he could report back later on.

It seems to me, Mr. Chairman, that whatever proposal comes out—and I want to say that I am for a genuine, bipartisan, comprehensive health care reform measure this year. But I have got to respond to the legitimate concerns of the 25,000 small businesses in my State and those small businesses all over the nation. The Chairman has them in his State; I have them; we all have them. We must take their concerns into consideration.

I believe that the Clinton administration plan does not meet the fairness test. And I must say, we know about the compensation that is given to the businesses under this intricate formula. It is extremely complex and I think will lead to all kind of gaming the system.

Thank you, Mr. Chairman.

[The prepared statement of Senator Chafee follows:]

PREPARED STATEMENT BY SENATOR JOHN H. CHAFEE FROM THE STATE OF RHODE ISLAND

Mr. Chairman, thank you for calling this morning's hearing to focus on the impact of health care reform on small business. I am especially pleased that SBA Administrator Bowles and Secretary Reich have joined us today.

I think that it is absolutely critical for this Committee to understand how health care reform—and in particular, the President's proposal—would affect the nation's small business community.

We all know that small business is the engine of our economy. It trains our workers. It creates the most new jobs. Even in a little State such as Rhode Island, the small business sector employs more than 300,000 workers.

In my view, no health care plan should be enacted that does not pass muster with small business.

Unfortunately, it seems to me that the small business community has good reason to be alarmed about the Clinton health care proposal. The employer mandate provision—requiring employers to provide 80 percent of the cost of their employees' health insurance—would have a very serious impact on small business.

Let me share a few statistics with the Committee:

- Seventy-three percent of NFIB members say the employer mandate would force them to cut, or freeze wages. Twenty-five percent say they would be forced to eliminate jobs. Twenty-six percent say they would go out of business.
- Employer mandates in Hawaii—a real life example—have had a significant negative impact on small business.

According to a Kaiser Foundation study, 40 percent employers in that State had to reduce their workforce. Fifty-three percent restricted wages, sixty percent raised prices, thirty-three percent reduced other employee benefits.

In short, Mr. Chairman, employer mandates are bad for small business. After all, the goal of health care reform is to cut costs—not jobs.

It seems to me that whatever proposal Congress approves this year—and I do think that genuine, bipartisan, comprehensive health care reform can occur before this Congress adjourns—it must respond to the legitimate concerns of Rhode Island's 25,000 small businesses and those small businesses around the nation. I pledge to do my best to ensure that health care reform is accomplished in a way that is fair to the nation's small businesses. Employer mandates on small businesses fail the fairness test.

I thank the Chair and look forward to hearing from our witnesses.

The CHAIRMAN. Thank you, Senator Chafee.

Senator Kempthorne.

STATEMENT OF HON. DIRK KEMPTHORNE, A U.S. SENATOR FROM THE STATE OF IDAHO

Senator KEMPTHORNE. Mr. Chairman, thank you for holding this meeting. And, Mr. Secretary, Mr. Administrator, I am pleased that both of you could be with us today.

In my questions that will come later there will be two common themes that I will be trying to discuss with you. One is with regard to the small businessman. I will be asking you the questions that I am asked when I am in Idaho, from the perspective of a small business person, and the fact that so many of them say that they feel that the administration's proposal in its current form will hurt rather than help their situations. This whole issue of employer mandates, which I think can have a real devastating impact on them, and the basic question there is: Is it better for a business that cannot provide health insurance to close its doors? Or is it better for business to stay open and provide jobs? I think that is at the crux of what we need to discuss today.

Also, I think it is very important that rather than spend the next few months fighting the administration, fighting the different proposals, we ought to look for those areas where we can agree. First, I think we all can agree that we need to reform health insurance so that everyone, regardless of health, will have insurance that is renewable, cannot be taken away, and that transfers from job to job. Second, that we reform antitrust laws so that health care providers can work as partners rather than competitors. Third, that we reform malpractice laws to reduce costly litigation. And fourth, that we cut paperwork and simplify regulation.

So, if we can find some common ground where we can work together, I think it will demonstrate that the administration and Congress can work together and that we will begin this effort on reform of health care. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Hutchison.

STATEMENT OF HON. KAY BAILEY HUTCHISON, A U.S. SENATOR FROM THE STATE OF TEXAS

Senator HUTCHISON. Thank you, Mr. Chairman. I appreciate your holding these hearings and I appreciate the time that it takes for you to prepare for these and that you would come and talk to us. I, too, have heard many concerns from the small business people that I talk to in my State and, as you know, I am a former small business person. And I want to just give you a few of the examples of their concerns.

I come from the candy manufacturing business. Many candy manufacturers are small, family-owned businesses. They cannot afford to provide health care but they can provide jobs, many times cyclical jobs because certain candy is summer and spring candy, some candy is winter candy.

If they have to provide health insurance, they do not have the option of raising the prices on candy because imports are so readily

available from Mexico and South America that will always be there at a much cheaper price. So they are really in the vise of providing health care and going out of business because they cannot compete, or just providing no jobs. So that is one area.

A man named Ed Norton, who owns a barbecue restaurant in Austin, TX, came to see me this week. He said that his annual net income before taxes is $43,825 at that restaurant. The health care costs under the Clinton plan will add up to $44,718. So you can see the predicament he is in. Now, of course, he can raise prices, but you can only raise prices a certain amount. The business has to absorb some of those price increases. So he is in a competitive market where his margin is going to go down and he is going to have a tougher time and his income will surely go down.

I have talked to people just in the last few weeks in my State who say that they have retired, they have opened a hardware store or something of that sort. And the hassles of doing business, not only with the regulations, whether it is OSHA or EPA, but with the tax structure changing, now health care reform with potential mandates on small business—they are giving up. They are going to be OK because they have retirement income but they are going to have to lay off six employees, and those employees are going to have the tough time.

We see the large corporations laying off people all over my State right now, and I of course read about that in the news. It is going to be incumbent on small businesses to create the jobs that will keep this economy growing.

I just have to say that I am very concerned about a mandate on small business and in every arena, Mr. Reich, because you are not only talking about health care but you are looking at the bigger picture of labor, and you do represent the working people of America.

I want you to think, when we are adding costs of any nature in the regulatory arena, what we are doing is we are squeezing out the small business people of this country. I know that you care, and I have talked to Mr. Bowles and I know that he is trying to protect small business. But I just want you to hear those real concerns at the grass roots level and think about that every time you look at changing a tax or a regulation or a mandate. Thank you.

The CHAIRMAN. Thank you, Senator Hutchison.

Senator Levin.

STATEMENT OF HON. CARL LEVIN, A U.S. SENATOR FROM THE STATE OF MICHIGAN

Senator LEVIN. Thank you, Mr. Chairman, and I thank our witnesses for being with us.

We have small businesses who have expressed a great deal of concerns in Michigan. Small businesses that currently provide health care, for instance, are one of the groups that are expressing concerns over the current system. They pay 30 percent more typically for the same health insurance that big businesses get for 30 percent less. They want to know why it is that we have a system where they are paying 30 percent more for the same thing now if they provide health insurance.

We have a group that is very dissatisfied with the status quo who are saying that we have situations where they face an environment that routinely discriminates against them on occupational redlining, that discriminates against them on pre-existing conditions. Businesses that currently provide health insurance are put at a competitive disadvantage with the store down the street or the store in the next town that does not provide health insurance.

We have a lot of small businesses that are very uneasy, that are very concerned about any proposal to change the status quo, particularly those small businesses that do not provide any health insurance now. I do not think small business is a monolith here. There are small businesses that are concerned either by continuing the status quo or by changing the status quo. We have got to be very sensitive to small business and the impact of any program on them.

I am glad our witnesses are here today to work through some of these issues with us. And I want to thank our Chairman for convening this hearing.

The CHAIRMAN. Thank you, Senator Levin.

Senator Bennett.

STATEMENT OF HON. ROBERT F. BENNETT, A U.S. SENATOR FROM THE STATE OF UTAH

Senator BENNETT. Thank you, Mr. Chairman. I want to pick up on what Senator Levin has said to make the basic point that small business is not monolithic, and I will try to put it in a specific circumstance to illustrate what I mean.

Prior to coming to the Senate, I was running a small business. It does not get much smaller; we had two employees, myself and my secretary. R.F. Bennett Associates. Proud history of service to the people of America.

We had full health care benefits because I could not hire a secretary if I did not offer her full health care benefits, and as the other employee I wanted it, too. We were about as small a business as you can get. As I say, we had full health care coverage. I might point out that our cost for that coverage was less than the COBRA fees that we were paying from our previous employment because we were able to shape coverage to meet our needs and not take the coverage mandated by the needs of the big corporation that we had worked for prior to our separation. And we were paying COBRA during that bridge period and then fashioned our own program, and our costs went down because we had the flexibility to make our decisions of what we needed. Frankly, neither one of us needed pregnancy benefits. She was beyond the childbearing age and I have never had that problem.

We must face the fact that the "one size fits all" mentality is at the core of this debate about what to do about health care for small business. Let me go from R.F. Bennett Associates to an example that makes the other point, and I pick on them not because they are particularly special but they do make the example very well. I am talking about the restaurant industry.

Most of the people who have come to see me who run restaurants hire primarily young people who are in school. They are covered with health care benefits through their parents, by and large. In-

deed, I could cite my own children in this circumstance. To insist that the restaurant owner provide full health care coverage for one of my children who is working there in a summer job when the child is completely covered by the family policy for which I have paid at R.F. Bennett Associates is duplicative and wasteful. Yet, the employer mandate that we are talking about in the legislation before us would do that. And as one restaurant owner said, "Senator, we do pretty well, but we are very labor intensive and our profit is $1,000 per employee per year. And you are talking about a plan that would add health care costs of $1,800 per employee per year. What happens to us?"

Well, I can tell you what happens to them with another historic parallel. I remember when the minimum wage law did not apply to retailing in this country. The legal doctrine was that a retail store did not cross State lines; therefore, minimum wage did not apply, and the only requirement for minimum wage would be the State requirement.

Congress in its wisdom decided that should not be the case and extended minimum wage protection to all retail stores in the country. And what happened? Clerks disappeared from retail stores. We went to the K-Mart model. K-Mart went from a very small operation to the largest retailer in the country until Wal-Mart caught them because they understood the concept better.

In my youth, you walked into a J.C. Penney store or a Montgomery Ward store, you ran into a clerk everywhere you turned around. As soon as minimum wage protection was extended to all of those clerks, they all disappeared, and you went to self-service in retailing.

I do not know how the restaurant industry would react to the loss of all of their employees by virtue of this kind of a mandate. I am sure we would get used to it, as a society, just as we have gotten used to going into retail stores and not having clerks anymore unless we are willing to pay the kinds of prices you pay at Nordstrom where you do run into a clerk. The industry would adapt. American industry always adapts. I am not saying it would be the end of the world and I am not saying that restaurants would disappear. But I am saying it would be very different.

We have the responsibility of asking ourselves, do we want it to be that different? Do we want to make the conscious decision that we are going to take employees out of restaurants because of this kind of mandate, or do we say there ought to be some other goal?

So I leave you with those two examples. R.F. Bennett and Associates, perfectly capable of providing health care services for only two employees; anxious to do it, compared to those whose employees are not career, whose employees many times have full health care coverage but whose employees would probably lose their jobs if we went to this kind of mandate. And it comes back to the point that Senator Levin made that small business is not monolithic, and the "one size fits all" mentality is something we seriously ought to challenge.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Bennett.

Senator Pressler.

Senator PRESSLER. Have all of my Republican colleagues had a chance here?

The CHAIRMAN. Yes.

Senator PRESSLER. Mr. Chairman, I ask unanimous consent to place my opening statement in the record. Let me address my first question to Secretary Reich.

The CHAIRMAN. They have not testified yet, but I will be glad to have your statement placed in the record and get this show on the road.

Senator PRESSLER. That is fine.

[The prepared statement of Senator Pressler follows:]

PREPARED STATEMENT OF SENATOR LARRY PRESSLER FROM THE STATE OF SOUTH DAKOTA

I want to thank Chairman Bumpers for holding this committee's first hearing on proposals to reform America's health care system and the impact such reforms could have on small businesses.

Let me begin by applauding the President and First Lady Hillary Clinton's efforts in bringing the issue of health care to the forefront of national debate. With nearly 37 million Americans currently uninsured and a health care system representing 14 percent of this country's GDP, it is obvious that changes must be made. There is no question that we need to make health insurance affordable and available for every American. However, we must not hobble small business growth in the process. The stakes for small business owners and their employees in this debate are enormous. They have not been so high since the creation of Social Security a half century ago.

I would like to welcome the Administrator of the Small Business Administration, Erskine Bowles, and the Secretary of Labor, Robert Reich, and thank them for appearing here this morning. I look forward to hearing their testimony.

At issue today is the administration's proposed plan for health care reform and the impact it would have on small businesses. Although I certainly agree that reforms are needed in our current system, as I like to say when discussing the issue with constituents in my home State of South Dakota, there is no reason to overhaul all the tractors in the shed simply because three or four of them need repairs. Indeed, to do so would be inefficient and would waste scarce resources. Rather, we should fix only that which needs repair.

THE NEED FOR REFORM

I believe our country is in the midst of a health care crisis. Health costs, for the employer and individual, have been increasing at unacceptably high rates. Since 1980, health costs have increased 106 percent. Prescription drug costs have increased some 123 percent. Medicare costs have increased 272 percent and Medicaid costs have increased 384 percent. During the same time period, overall consumer inflation rose 68 percent.

In 1980, employers spent $61 billion on health insurance. A decade later, these expenditures nearly tripled, reaching $174.2 billion. Health costs are gobbling up the budgets of families and businesses. It doesn't take an economist to conclude that these costs must be contained.

I believe the assumption of some during the health care debate has been that employers are greedy and that companies that don't provide insurance have the resources to do so. In my view, this is not the case. Nearly all employers want to provide insurance to their employees. It is cost that prohibits them from providing this benefit. Consequently, the debate should focus on what can be done to make insurance affordable and how we can provide incentives to encourage employers to provide medical insurance. In my view, a mandate is not the solution.

EMPLOYER MANDATES

This past August, 40 Senators joined with me in sending a letter to President Clinton stating our opposition to using employer mandates to pay for health care reform. I ask unanimous consent to include that letter in today's hearing record immediately following my remarks. In achieving meaningful health care reform, it is not necessary to subject small business owners to an "employer mandate"—particularly one which requires them to pay 80 percent of their employees' health care premiums. We must remember that in attempting to solve a problem, there is usually

more than one viable solution, especially with a problem of such vast proportions. I believe a solution will eventually be reached, but in doing so, let us not dampen, or even possibly destroy, the ability of our nation's entrepreneurs to do what they do best—create jobs.

As I said a moment ago, I believe a large part of the health care problems we face today have sprung from a failure to contain costs. Therefore, we must put the focus of health care reform on cost containment. As currently proposed, the administration's plan may effectively do just the opposite. Indeed, it may result in a massive new bureaucracy, new spending of $700 billion, and most importantly for our discussion today—a costly employer mandate. Recent estimates predict the Clinton plan may cost taxpayers an additional $108 billion in taxes by the year 2000; and questionable plans for financing the Health Security Act may eventually result in a $1 trillion funding shortfall. With a plan for health care reform that leaves businesses responsible for most of the cost, these numbers worry me. Throughout this debate, the administration's mantra has been, "Health care that's always there." But will government subsidies to small businesses always be there?

ADDITIONAL CONCERNS WITH THE CLINTON PLAN

I have a number of other serious objections to the administration's plan. In my view, it is disguised socialized medicine. It is not good medicine for small business. It would not solve our health care problems. I already have discussed my problems with employer mandates. Let me take a moment to touch on some of my other major concerns.

First, the administration's plan envisions a massive new bureaucracy through the creation of mandatory health alliances. These alliances would contract with insurance companies, hospitals, and doctors. They would approve health plans and would be involved in the day-to-day management of our health care system. We no longer would buy our health insurance directly from insurance companies. Rather, our premiums would go to the alliances. I'm concerned that these mandatory alliances would increase red tape, eliminate competition, and create a new bureaucracy—perhaps the greatest fear of any small business owner.

Second, the administration's plan establishes a National Health Board. This seven-member body would make decisions that would affect all of us. The Federal board would not, in my view, understand or protect the best interests of small businesses.

Third, the administration's plan envisions new spending of $700 billion. This is too costly. Not only that, but the plan's costs likely will go up. To date, the administration's cost estimates have not proven to be very reliable. For instance, the administration originally estimated that 40 percent of all Americans would pay more for health care under their plan. The administration has since adjusted the figures and now indicates that 30 percent of Americans will pay more.

Fourth, the administration's plan defines a standard benefits package. This would result in limited choices and greater government intervention in deciding who gets what kind of care. I believe we should be permitted to purchase a plan of our own choosing. The government should not decide for us.

THE BETTER APPROACH

I believe the cost of health care could effectively be contained through a market-based approach. This approach would include: reforming malpractice laws; allowing the formation of private purchasing pools; providing subsidies to help low-income individuals purchasing insurance; reducing the amount of paperwork; limiting Federal regulations which have proven burdensome and costly to health care providers; reforming antitrust laws; eliminating the waste and fraud prevalent under the existing system; making health insurance portable; and prohibiting companies from denying benefits due to pre-existing medical conditions. As I stated previously, there is more than one way to remedy the situation of the uninsured; but the first step must be to gain control of this country's skyrocketing health care costs. Health care reform will be our legacy to future generations. We must ensure it is not a legacy of reduced employment and an increased national debt resulting from the bankruptcy of thousands of small businesses.

SBA EFFORTS IN SUPPORT OF THE ADMINISTRATION'S PLAN

Before I conclude, let me take just a moment to touch upon an issue Administrator Bowles and I have been discussing at some length over the past several months. I remain troubled by the SBA's participation in efforts to promote the administration's health care reform proposal.

During the fall of 1993, employees of the Small Business Administration engaged in a serious and highly questionable effort in support of the administration's health care reform legislation. It may be continuing.

SEA—apparently with considerable assistance from the White House, and certainly with the cosponsorship of the Department of Commerce—developed, published, and distributed a slick, multicolor health care reform brochure. Furthermore, SBA exacerbated the situation by putting the brochure on its "On-Line" computer bulletin board. Not only were these propaganda tools an unwise use of the taxpayers money, they were seriously misleading and contained many incorrect factual statements. Numerous other statements made in the brochure were outdated—and thus inaccurate—almost immediately after publication. However, that did not stop SBA from sending out hundreds of thousands of brochures to government officials and the public at large.

Additionally, SBA—again apparently with the assistance of the White House—spent hundreds of thousands of dollars on a computerized program, phone system, and employee training, for a 1–800 health care propaganda line. Small business owners would call up SBA's toll-free hotline and for the most part be told that they would benefit from the administration's proposal. The problem was that SBA's computer program was flawed and produced inaccurate information. Indeed, after testing this flawed program for months, SBA ended this wasteful initiative because of what it called "budget constraints."

As a consequence, on November 19, 1993, I asked GAO to investigate SBA's health care reform initiatives. Unfortunately, it appears that to say SBA employees have been less than forthcoming with information for GAO investigators would be an understatement. Some senior SBA employees have been uncooperative, while it appears others have engaged in halftruths and obfuscation. I, therefore, request that Administrator Bowles inform his employees in writing that they should fully cooperate with GAO investigators. Furthermore, Administrator Bowles should take punitive action against any unethical or uncooperative employees.

Again, I would like to welcome Administrator Bowles and Secretary Reich. I hope this will be the first in a series of health care hearings, as it is vital that we also hear from the small businessmen and women who will directly be affected by the proposed legislation.

The CHAIRMAN. These opening statements sometimes take a lot of time, Secretary Reich, but at the same time, they help give the witnesses a little indication of what the questioning is going to be and help you start refining your thoughts on how you are going to answer.

One other observation. This Committee, believe it or not, is one of the most sought-after assignments every 2 years when the Steering Committee meets. Last year I grudgingly accepted an increase in the size of this Committee to accommodate the number of people who were clamoring to get on this Committee. They never attend, but they want to be on the side of the angels back home, and, of course, they issue a press release and we never see them again.

Now, this is not true of some of the people over on the Republican side, I must say. Some of the people who are here this morning are pretty good attenders. But this is a rather large turnout of Senators. I think that is out of respect for the quality of the witnesses and the stature of the witnesses, but it is also because of a very hot issue.

It goes without saying that small business in this country is somehow or other going to have to be placated in this whole reform movement. It is the hottest part of the bill so far as the success of the bill, and we look forward to hearing from you and Administrator Bowles this morning. Please proceed, Secretary Reich.

STATEMENT OF HON. ROBERT B. REICH, SECRETARY, U.S. DEPARTMENT OF LABOR

Secretary REICH. Mr. Chairman, Senator Pressler, Members of the Committee, thank you for having this meeting and thank you for inviting me up here. Let me start by first of all asking you to accept my statement for the record.

The CHAIRMAN. If you could summarize, that will be helpful.

Secretary REICH. I want to touch on some of the points that have been raised and summarize what I think are the key points here.

First of all, I think most of us agree that there is a big, big problem out there, and the problem has two faces to it. Number one, health care costs are increasing at a galloping pace, twice, three times inflation. We have got to do something about that. Number two, we have got 38 million people at any given time who do not have any coverage. One out of every four Americans will lose their coverage over the next 2 years. Many people, given the enormous churning that is now going on in the job market, do not even know when they are going to lose their jobs; and because the job is linked to health insurance, people could be out on the street without health insurance at any given time.

So we have those two realities: extraordinary increases in health care costs coupled with enormous insecurity and lack of health care for many Americans and others who may not know when they are going to lose their health care. And those who have a pre-existing condition, may not get health insurance back.

The question is, what are we going to do about it? Small businesses, I believe and the administration believes, are big winners in the President's Health Security Act. I grew up in a small business. My father was a small businessman. He had three employees. He had a little clothing store. In the 1950's we got flooded out after a big hurricane. In fact, Administrator Bowles, we went to the Small Business Administration, and received a loan that put us back in business.

I have lived in a family with a small businessman. He was small in both the size of his business, and he also was fairly small in his height. I understand small business and I have been talking to small businesses, and for the last year, as Labor Secretary, I have gone out and talked to small businesses and employees of small businesses.

Now, there are five points I want to stress here, and I am going to go through them very, very quickly. Number one: most small businesses are already providing health insurance. Most of them even those who are not providing health insurance, want to provide health insurance to their employees. Why is that? Because if they are not already providing it to their employees, they are at a competitive disadvantage in terms of getting good people.

In fact, Senator Bennett, you were talking about that a moment ago. You wanted to provide health insurance because you knew you could not get the kind of secretary you wanted if you did not provide health insurance. So small businesses want to provide health insurance even if they currently are not.

Now, the present system is rigged against them in a number of ways. Number one, they have got to spend as much as 35 percent more than the average big business for the same insurance for

their employees. Why? Because they lack the purchasing power of big businesses. The big businesses can say to the insurers and providers, "Look; we are demanding lower costs." Some of them, if they are very, very big, have so much purchasing power that will allow them to form their own corporate alliances. They do not even have to join forces with other businesses to get the lowest cost health insurance.

But what small businesses need, is to form purchasing pools, buyer's clubs, call them what you might. They are called "alliances" in the bill. The point is you pool employers and individuals to create bargaining leverage. Purchasing cooperatives are as American as apple pie. If small businesses get together, they can bargain for lower prices from the insurers. Instead of paying 35 percent more than the big businesses, small businesses can actually bargain with insurers and providers, and get those costs down. So that is one big, big advantage.

Advantage No. 2. Right now, small businesses, because they do not have the economies of scale of big businesses, have to pay huge administrative costs. Forty cents of every dollar they are paying on health care goes to administrative costs: just the billing costs, insurance claims, and all of that red tape. That is eight times the administrative cost that big businesses have to bear, because big businesses utilize economies of scale. Again, if small businesses align themselves together in these purchasing cooperatives or regional alliances, whatever you want to call them, they can reduce their administrative costs. They can get costs down and that is good for them.

No. 3. As some of you have noted, some insurers just will not insure certain small businesses. Maybe their occupations are redlined, their workplaces are a little bit more dangerous or their workers may have pre-existing conditions. Insurers can treat small businesses in a very highly prejudicial way. They do not get the same treatment as big businesses. Again, if small businesses and together in a purchasing cooperative where there is community rating, they do not have to worry about that kind of prejudice. They do not have to worry about that kind of mistreatment and arbitrary and capricious behavior on the part of insurance companies. And small businesses all over this country who want to provide insurance or who are providing insurance are having this problem over and over and over again.

Now, No. 4. A lot of small businesses are going to get a big, big subsidy. We can talk about the mechanics and we can talk about exactly when the subsidy kicks in, but if you are a small business and you have low-wage employees, you are going to get a subsidy which assures that you will not have to pay anymore than 3.5 percent of your payroll to cover all your employees and give them the kind of plan we are talking about. That subsidy comes from the Federal Government, and it guarantees that you are only going to be paying if you are paying your workers the $4.25 minimum wage—about 15 cents an hour extra for those workers. The maximum you are going to be paying for those workers is 30 cents an hour.

Again, you want to provide health insurance. If you are now providing health insurance or if you want to provide health insurance,

this is a big, big advantage to small business. And if you are self-employed, under the President's plan you will have all the advantages of the community rating, all the advantages I just talked about, plus you can deduct 100 percent. Right now you can only deduct 25 percent.

Some of you referred to employment effects, and let me go through this in some detail because, obviously, as Secretary of Labor, I am concerned about employment in this country. The President is deeply concerned. The President does not want to do anything that deters employment. We want to allay the fears of small businesses that do not now provide health insurance.

About 8 or 9 months ago, soon after I came onboard as Secretary of Labor, the President asked me to do an inquiry. He said, "Look, the minimum wage in this country is now $4.25." That is about 25 percent below what it was in the late 1970's if you adjust for inflation. (The minimum wage continues to decline, adjusted for inflation.) So he asked me to go back and see, on the basis of all of the studies that I could find, how much could you raise the minimum wage without creating negative effects on employment. Could you raise it 15 cents, 30 cents, 50 cents?

I went back to all of the studies that have been done. A lot of studies have been done such as those by Andrew Card, Alan Kruger, Lawrence Katz at Harvard and Princeton and a lot of other places. They performed empirical analyses, and found that you could raise the minimum wage at least 50, 60 cents an hour without having any negative employment effects. That was their conclusion. And I can share the studies with you.

Now, what does this mean for our present discussion? The President asked me, "Should I recommend to Congress an increase in the minimum wage now?" And my recommendation back was, well, even though you could increase the minimum wage with no negative effects on employment and you could increase it substantially, maybe we ought to wait. First things first. Health care is first. And there is some concern, and I've heard it in the small business community, particularly among those small businesses who are not now providing health care coverage. Even that 15 to 30 cents an hour per employee increase concerns them.

Nevertheless, that 15 to 30 cents an hour is well below the 60-cent safety zone that I just cited. Even if a business has to bear every penny of that, it is well within the safety zone of what that minimum wage could have been raised to without having any negative employment effects. In other words, on the basis of everything we know about the cost of labor at that minimum wage, that 15 to 30 cent increase for those small businesses who do not now provide health insurance—and this is putting to one side all of the advantages I have talked about for small business that do provide it or want to provide it to gain a competitive advantage is not going to have any negative effect on employment.

In short and in summary, there are big advantages for small business in this bill. Small businesses right now either do or want to provide health care coverage as a competitive matter. They have a very, very hard time in the marketplace. This bill, because it pools their bargaining power, gives them community rating, reduces their administrative cost, gives them subsidies and also is

not going to be an impediment to hiring, will help, and not hinder, small business. Thank you.

[The prepared statement of Secretary Reich follows:]

PREPARED STATEMENT OF ROBERT B. REICH, SECRETARY, U.S. DEPARTMENT OF LABOR

Mr. Chairman, Mr. Pressler, Members of the Committee. Thank you for giving Administrator Bowles and me the opportunity to discuss the administration's health care reform plan. These hearings demonstrate your commitment to a thorough exploration of issues which are of profound importance to the Nation. I know that members of this Committee have worked extremely hard to advance the concept of meaningful and effective health care reform, and I want to applaud those efforts.

Last fall, President Clinton and the First Lady each made historic appearances before Congress. They described for you a comprehensive plan for providing all Americans with health care coverage. The plan is based on six principles: security, simplicity, savings, choice, quality, and responsibility. With the introduction of the Health Security Act, the President has provided us with something that can be found nowhere else today: a blueprint for the comprehensive reform of our failing health care system.

Today, I would like to focus on the urgent need for health care reform and the substantial benefits it will bring to small business owners and their workers.

Health Care Costs Too Much Today

If there is one point we can agree upon, it is that we are spending too much for health care today. As a nation we pay the highest costs for health care in the world, spending a far higher percentage of our gross domestic product than any other industrialized country. Health care now consumes nearly 15 percent of GDP. Left unchecked, these expenditures will rise to about 18 percent of GDP by the year 2000—just 6 years from now.

For all that money—for that truly staggering sum—what kind of health care system are we giving ourselves? What kind of value are we getting—now, and in 6 years when we will be spending almost 18 percent of GDP? I won't take your time now for a full discussion of the serious inadequacies of the current system. I know many of you are already well-informed on this subject. Let me just share some recent figures on a couple of points. Last year, the most recent data showed that 37 million Americans had no health insurance. The data available this year show that the figure has now risen to almost 39 million. A sobering study by the Children's Defense Fund reveals that, as bad as the rate of uninsurance is for the general population, it is substantially higher for children. In fact, the study indicates that by the year 2000, barely half of the nation's children will be covered by health insurance through their parents' employers. This is the health care system that we will be paying $1 trillion for next year.

Businesses Are Paying Too Much

Now, I want to make one point as clearly as I can. Today, nine out of ten of the non-elderly who have private health insurance get that insurance from an employer. Therefore, when I say that "we" are paying too much for health care, I am saying that employers are paying too much for health care.

Business currently spends over $200 billion on health care. Real business spending on health care per employee has risen by 200 percent since 1970. Remarkably, business health care expenditures now nearly equal after-tax profits. For a business, every dollar unnecessarily spent on health care is a dollar that cannot be invested in plant and equipment, research and development, higher wages, or workforce development.

A major element in the exorbitant prices that businesses are now paying for health insurance is the bloated and highly inefficient administrative structure we have for health insurance today. Over $45 billion of health care expenditures went for administrative expenses in 1992. And no wonder. Doctors, nurses, and hospital administrators must contend with 1,500 different claims forms, most of which must be filled out by hand and submitted to more than 1,000 different health insurers. And on top of all this, fraud and abuse may account for up to 10 percent of U.S. health care costs.

Another reason for the soaring cost of employee health insurance is that the premiums businesses are paying for this insurance are being inflated by $25 billion each year to cover the health care of those without insurance. In America, we don't leave the ill and injured to suffer and die just because they have no health insurance. Acutely ill uninsured people can obtain care, even if they can't pay, at hospital

emergency rooms, which is an exceedingly expensive form of care. The hospitals recoup these costs by indirectly passing them through to insurance companies, who in turn raise premiums for those employers who do provide their workers with insurance. A Brookings Institution study recently cited research that private payers pay about 130 percent of their actual costs.

Who are these uninsured people that are adding so much to the cost of health insurance? They are not the poor and unemployed, who are generally covered by Medicaid. The fact is, almost 85 percent of those without insurance are working people and their dependents. The businesses that employ these people are gaining a competitive advantage in a way that is economically unproductive and that we all surely find unacceptable: by shifting the cost of their employees' health care onto the backs of responsible businesses.

Workers Are Paying Too Much

As we have increasingly come to recognize, the fortunes of businesses and their workers are closely intertwined. It should be no surprise, therefore, that the pressures experienced by businesses as a result of skyrocketing health care costs are felt with full force by their employees.

In an ever more competitive environment, businesses have to a large extent passed on these rising health care costs by holding down employees' compensation. One way of doing this has been to redirect money that would otherwise have gone to wages. The Brookings Institution has estimated that rising health care costs have consumed 58 percent of workers' potential wage increases since 1980, and, if left unchecked, will soon consume 100 percent. It is estimated that the average worker today would be earning almost $600 more per year if the cost of health insurance had not outpaced wages over the past 15 years. At the current pace of cost increases, by the year 2000, workers could lose another $1,000 in annual wages.

Another response to escalating costs has been to require workers to pay an increasing share of their health care costs. Employer efforts to increase their employees' share of health care costs were a key issue in almost half of the major strikes in 1990. Labor agreements have increasingly shifted health benefit costs to the workers.

The alternative to reductions in compensation is to reduce or eliminate entirely the health care coverage itself. And in fact, the percentage of employers providing coverage has been eroding steadily in recent years. Employer coverage of the non-elderly population fell from 66.8 percent in 1988 to 62.5 percent in 1992.

Skyrocketing health care costs are only part of the problem for American workers. Surveys show that up to 30 percent of workers are "locked" into their current jobs because they fear their new employer may not offer insurance, or because someone in their family has a preexisting condition that would not be covered if they switched jobs. Job lock is a serious impediment to workforce mobility at a time when the economy needs a more flexible, agile workforce.

Among part-time workers, only 28 percent of those who work in large firms, and 5 percent of those who work in small firms, participate in health care plans at least partially supported by employers. Temporary workers have an even harder time qualifying for medical benefits.

Concerns about health insurance also contribute to "welfare lock." Studies show that a substantial number of non-working welfare recipients would be more likely to work if they could be assured of continuous health care coverage.

Small Businesses Are Handicapped Under the Current System

While the explosion in health care costs has been felt by every American business, its impact on small businesses has been especially damaging. Soaring insurance premiums are putting affordable health insurance beyond the reach of more of these businesses everyday, while those that can still pay are fighting to remain competitive.

The President understands that small business is the nation's engine of economic growth. He also recognizes that the current health care system is a nightmare for these firms. Small businesses pay premiums up to 35 percent higher than large corporations for the same coverage. Administrative costs eat up as much as 40 cents of every dollar small businesses spend on health insurance premiums, eight times as much as large companies. Small businesses are increasingly facing the choice of paying unaffordably high rates for health insurance or providing no insurance and, as a result, losing good workers who leave for a job with insurance. In addition, small businesses suffer from the worst aspects of the current insurance system, such as individual underwriting, occupational red-lining and age-rating.

Despite these disincentives, most small businesses still offer health insurance for their workers. As costs continue to rise, however, fewer and fewer are able to con-

tinue doing so. Higher health insurance prices not only reduce net income, but increase the competitive advantage the business can gain over others by terminating its employee health insurance. It is pushing businesses to shift health care costs onto their employees or other businesses.

The Remedy: The Health Security Act

A number of reform proposals have been made which claim to achieve the same goals as the President's proposal, including the key issues of universal coverage and meaningful cost control. The President's approach, however, is the only one that provides all the specifics on exactly how these goals will be achieved. And no other proposal will so dramatically improve the terms on which health care will be available to small businesses.

Let me list for you the benefits of the reform proposal detailed in the Health Security Act, and then I will explain them in turn.

1. *Cost-Savings*—A truly competitive health insurance market and major administrative efficiencies will be achieved through the regional alliance system, which will give smaller businesses access to insurance on terms now available only to the very largest employers.
2. *A Level Playing Field*—"Community-rated" health insurance premiums and regional purchasing alliances will lower costs for small businesses, increasing their competitiveness with large firms and increasing profits, wages and jobs.
3. *New Business Formation and Investment*—Reducing health care costs will free more funds for investment, and guaranteeing universal coverage, regardless of employment status, will spur entrepreneurship and new business formation.
4. *Small Business and Low Wage Workers*—The premium discounts provided by the Health Security Act are designed to minimize any potential adverse employment effects on small businesses and low-wage workers.
5. *Worker Mobility-Worker Choice*—Enabling people to keep their health insurance when they find a better job or leave welfare for employment will end job lock and welfare lock. Guaranteed coverage will also free individuals to join or start new businesses. Workers in small firms will be able to choose from a number of insurance plans.

Cost Savings

The establishment of regional alliances is an essential element for achieving the President's goal of controlling costs. By routing health insurance for all small and mid-sized employers through regional alliances, we can eliminate much of the administrative waste that burdens the current system.

Regional alliances will provide a mechanism for large numbers of people to pool their purchasing power. For the first time, small businesses and their workers will have the bargaining clout to purchase health insurance on terms previously available only to the largest employers. For example, administrative expenses in the alliances will be limited to 2.5 percent and in health plans they will be about 10.9 percent of claims, compared to the 35 percent or more that is typical for insurance policies sold to small businesses today. Community rating requirements will also eliminate many of the discriminatory insurance practices, such as individual underwriting and age-rating, that can so dramatically increase the cost of health insurance for small businesses today.

The regional alliances will provide two additional improvements over the current system. First, alliances will provide essential information about the covered population so that health plans can effectively set prices. For consumers, alliances will provide information on plan costs and service quality based on information collected from consumer surveys and the development of health outcome measures.

This is an important change from the current system that will increase competition in the health care market, holding costs down. As every economist will tell you, reliable information is essential for an effective market. Today, however, many poor decisions are made about health insurance because businesses and their employees cannot get good information about the quality of different plans.

Second, the alliances will serve as the negotiating representative of its members, and, to a great extent, will relieve businesses of much of the administrative burden that exists today—enrollment, for example, will be handled largely by the alliances, and the alliances will provide procedures to resolve benefit claims disputes. Regional alliances can realize the economies of scale that only large businesses enjoy today.

The savings generated by these changes will be significant. A study released this week by the Department of Health and Human Services shows that employers who now pay for employee health insurance will save an average of $605 per worker in the year 2000. This totals nearly $60 billion in that year alone. Net of new expendi-

tures by businesses that are not now contributing to employee health care, American businesses overall would achieve savings of about $30 billion by the year 2000. In addition to the savings achieved by businesses, employees that currently contribute toward the cost of their employer-sponsored health plan will collectively save an additional $29 billion in that year.

The partial integration of workers' compensation medical costs into the new system will also help lessen the burden that these costs impose on American industry. Under the Health Security Act, workers who are injured on the job will receive care through their regular health plan and the doctor they have chosen. Employers will continue to buy separate insurance through workers' compensation insurance carriers on an experienced-rated basis. Regional alliances will set fee schedules for workers' compensation cases.

This policy will ensure that the cost savings of health care reform are passed on to the workers' compensation system, while preserving the employer's incentive to maintain a safe and healthful workplace. It also will eliminate contentious disputes over which provider will treat a work-related injury. And the fee schedule will prevent providers from charging higher fees for workers' compensation cases.

Large and small businesses alike will benefit from the plan's increased emphasis on preventive care. This will result in fewer lost work days and a healthier, more productive workforce.

A Level Playing Field

Small businesses that are currently providing health insurance have a special stake in reform. Today, significant cost disparities sometimes exist among firms and industries because of widely divergent health care costs or the lack of coverage. This difference, in turn, may result in a competitive advantage for some firms. Health care coverage, however, should not be the basis for an advantage in the marketplace, and indeed, one of the major benefits of the Health Security Act would be a fairer and more competitive economic environment. These gains will be achieved under the Health Security Act without adverse affect on employment rates.

Health care reform will, of course, affect different firms differently. Firms that are not now providing insurance will face increased costs after reform. Firms that are currently offering coverage, however, will on average enjoy cost reductions. These gains come from universal coverage, thereby virtually eliminating cost-shifting, from Federal discounts, and from slower growth in costs over time. Economy-wide, the average firm will experience cost reductions of about $230 per worker in 2000. There will also be changes in the distribution of costs among industries. For example, manufacturing, which has a relatively high rate of covered workers, will see expenditure reductions compared with industries in which relatively few firms provide coverage. These effects will help to level the playing field so that businesses will be competing on market factors aside from whether they provide health care.

New Business Formation

Guaranteed universal health care coverage will act as a major encouragement to the formation of new small businesses. Past experience shows that employees of large, established firms often develop an interest in leaving their company to start their own independent business and pursue their own creative ideas. Such a transition today, however, usually means giving up the security of assured health care coverage, putting themselves and their families at risk. The difficulties faced by self-employed workers and small businesses today in purchasing health insurance creates large disincentives for individuals to leave covered jobs to start new businesses. The Health Security Act, by providing universal coverage and generous discounts to small, low wage businesses, effectively eliminates the "job lock" that has been a major obstacle to new business formation. The result will be a valuable infusion of entrepreneurial activity in the small business sector of our economy.

Health care reform will also facilitate greater productivity growth. As administrative expenses and unnecessary care decrease and the health care industry becomes more efficient, the economy will be able to produce more output than it would have without reform. This productivity increase will raise living standards, which is the principal objective of this administration's economic policies.

Impact on Minimum Wage and Lower Skilled Workers

Lower paid workers are heavily concentrated in smaller, low-wage firms. The provisions in the President's plan relating to small businesses are therefore especially meaningful for this part of our workforce.

For the majority of small businesses, which still provide health insurance for their workers, the President's plan would achieve a substantial reduction in their labor costs, a critical point that the CBO analysis confirms. For small businesses that do not presently provide employee health care coverage, the President's plan would

raise labor costs, but only moderately, based upon a system of discounts that places substantial limits on these costs. Firms with 75 or fewer employees and low wages will receive discounts, with firms of less than 25 employees paying no more than 3.5 percent of total payroll on health insurance. This amounts to just 15 cents per hour for a minimum wage worker. No firm would be required to pay more than 7.9 percent of payroll for health insurance under the President's plan.

Some have argued that even these minimal additional costs could cause job losses. The evidence simply does not support this view. These levels of cost increases would not even bring the current cost of minimum wage labor up to the real levels of the mid-1980's. The CBO analysis quite clearly finds that the President's plan would not significantly reduce low-wage employment. In fact, to the contrary, the CBO confirms the administration's point that its health care reform plan will tend to increase employment by putting an end to the welfare lock that has discouraged the unemployed from accepting work that would leave them without health care coverage.

Neither do empirical studies of past increases in the minimum wage support the contentions of job losses that the critics have put forth. These studies show that moderate wage increases of the size that would be imposed by the Health Security Act would have minimal effect on employment of low wage workers. During the health care reform transition period, workers would be eligible for enhanced retraining and employment services through a comprehensive dislocated workers program. Workers would be eligible for services under this program regardless of the cause of their displacement.

Enhanced Mobility and Other Benefits for Workers

Worker mobility has traditionally been one of the great strengths of our Nation's economy, and the President's approach, by virtually eliminating health coverage as a barrier to worker mobility, will help us maintain that strength.

Under the Health Security Act, health insurance will be completely portable. As a consequence, people will no longer feel they cannot seek a better job because of fear of losing health insurance coverage. People on welfare will no longer feel that they cannot join the workforce, because of fear of losing health insurance coverage. Individuals who would like to start or join a small business would not be prevented by fear of losing their own health insurance or by the prohibitive costs and burdens of providing their employees with health insurance.

The President's plan will also guarantee workers a choice of plans. Today, among firms that offer health insurance, 94 percent of employees in firms with 1–24 workers, and 84 percent of employees in firms of 25–49 workers have only one choice of health plan. Under the new system, workers, not employers, will choose the plan that suits them best. Through their regional alliance, small business employees will be able to select from among every qualified health plan that is marketed in the region.

Universal, community-rated coverage also reduces the incentives to hire people based on their age, family status or other health insurance factors, rather than their skills and qualifications. In addition, firms will no longer have an incentive to hire part-time and temporary workers simply to avoid paying health care benefits.

CONCLUSION

We cannot afford not to reform our current health care system. The rising cost of the system to businesses, to government, and to individuals demands it. The eroding quality and coverage of the system cries out for it.

Even when change is in the best interest of all Americans, there is a natural fear of stepping beyond the status quo. I am convinced that many concerns about the President's plan have little to do with health care reform per se, and much to do with the pervasive anxieties arising from economic and social changes that are already affecting Americans. We cannot let these anxieties paralyze us and prevent necessary reforms. Our health and the health of our economy depends on our ability to provide health care security at an affordable price for all Americans.

These fears are especially real among small business owners and workers because they are among the most vulnerable in our economy. But it is essential to recognize that it is the current system that is most harmful to them. The high cost of coverage has made health care an important factor in the competitive equation of business, and it shouldn't be. As this Committee well knows, small business entrepreneurship is a dynamic element of job creation in our economy. Unfortunately, the high cost of health insurance has become a serious obstacle to new business formation. Taking risks in the marketplace should be encouraged and rewarded, but the ability to protect one's health and that of one's family should not be a risk that one has to take. The Health Security Act will eliminate that concern.

A close and thoughtful consideration of the President's plan for health care reform will surely lead this Committee to one conclusion: that it will strengthen the small business sector of our economy. By unleashing the powers of vigorous free enterprise competition, it will drive down the cost of employee health insurance throughout the economy. Through a measured system of employer discounts, it will limit the impact of health reform on those small businesses that could be most vulnerable to change. It will level the playing field between small and large employers by giving small businesses access to employee health insurance at prices as low as—indeed, lower than—those available to large businesses today. Small businesses will no longer be at a disadvantage in competing with large firms to hire the best workers. By establishing a system in which employers take responsibility for their own—and only their own—employees, the plan will also level the playing field among smaller businesses, creating an economy in which businesses compete based on their productivity and quality, not on their ability to avoid providing employee health care.

The CBO's analysis corroborates these benefits of the President's plan explicitly. The CBO confirms that smaller firms typically pay much higher premiums than larger firms, and that the Health Security Act would benefit small business. Let me quote them: "This leveling of costs could benefit all small businesses—not just those that provide insurance today. With access to more affordable insurance, small businesses would be better able to attract workers who now demand health insurance as a condition of employment."

The President's plan will extend quality health care coverage to almost 39 million Americans who now are without coverage. And the CBO's analysis confirms what this administration has consistently maintained: that we can do this while reducing total health expenditures, while achieving long term deficit reduction, and with a negligible or positive effect on employment.

I look forward to working closely with the members of this Committee in our efforts to improve the lives of American workers and their families.

The CHAIRMAN. Erskine, let me ask your indulgence that we be permitted to question Secretary Reich now because he is going to have to leave.

Mr. Secretary, let me ask you about worker's compensation and the role it plays in this issue, because small businesses will tell you that the biggest burden they have right now all across America—it is certainly true in my State and everywhere I go I find it true—is that worker's compensation premiums have skyrocketed.

Now, as I understand this plan—you may correct me because I do not profess to be an expert on this—if an employee is injured on the job, the cost of medical attention and so on, would be reimbursed by the workman's compensation carrier.

Now, this does not fold in so that the health insurance carrier would pay that. Rather, the employer continues to pay the same premiums they are paying now for worker's compensation, and that worker's compensation carrier would be responsible for the health benefits by simply paying for them. Now, is that not, in effect, sort of a double premium that businesses are going to have to pay, because they are going to have to continue paying the same amount for worker's compensation and the worker's compensation carrier will continue to pay for their health benefits, but they are also paying for benefits that if they did not have worker's compensation their health insurance carrier would have to pay for it. Is that not a double coverage?

Secretary REICH. No. Mr. Chairman, let me be very clear on this because there has been some confusion.

The CHAIRMAN. Let me please make one other point, Mr. Secretary if I may, and that is this. It seems to me that if you simply folded the health care benefits into the new plan so that their worker's compensation premium would be reduced because it would only cover the permanent or temporary disability that they suf-

fered, that would make this considerably more palatable to the business community. Please proceed.

Secretary REICH. The actual health care provided to workers—injury on the job, illness on the job—comes through the purchasing cooperative or health alliance. It will be less expensive for the small businesses because it will come through the same health provider as any other health care.

The only thing that is kept in the workers' compensation system is the experience rating. That is, if you are a very dangerous business and you have been a little careless and you have a higher than usual injury rate, then you probably ought to pay a little bit more for your workers' compensation coverage. But the actual cost of health care is going to be cheaper for you then under the current system, because the health care itself is coming in through the alliance.

So, in other words, it is not double paying at all. The health care you are getting cheaply—and it is good care; it is the same care that your workers are getting for their other medical needs. It is just that your premiums are risk-adjusted depending upon how good you are at keeping your health and safety record at your workplace. And that, to me, is the best combination of all.

The CHAIRMAN. I was just trying to figure out some way to make it more palatable by trying somehow or other to reduce the worker's compensation premium which, as I said, is No. 1—well, it is No. 2 on their priorities now. It was No. 1 until this health care plan was proposed.

Secretary REICH. Mr. Chairman, if I could, again, I want to underscore this because this is very important. And because the Labor Department is in charge of the Occupational Safety and Health Administration, I have a particular interest in this.

We want to continue the incentive for businesses, large and small, to have healthy and safe work places. And to the extent that their workers' compensation costs are related to how healthy and safe their work places are, this is a good policy. We want those businesses that have healthy and safe work places to have very low costs.

The point is that we are, in the President's plan, providing the actual health care as cheaply and as efficiently as possible through the health alliances. So that we have, in other words, the best of both worlds: the right incentives for businesses to maintain healthy and safe workplaces, and health care provided inexpensively, through a health alliance.

The CHAIRMAN. Let me shift gears and ask you about some complaints about regressivity. If you have an employee making $100,000 a year and an employee making $10,000 a year, each one of them will be required to pay the same percentage for the same coverage; would they not?

Let us assume you are in a 5 percent bracket. A guy who is getting $10,000 a month is going to be paying $500 a month for his coverage. A guy who is making $1,000 a month is going to be paying $50 for his coverage and they are both getting the same coverage. Is that right?

Secretary REICH. That is partially right. They pay the same premium, but where it becomes progressive is on the sliding scale with

regard to the subsidies that are offered back. That is, the very low-wage workers and the small——

The CHAIRMAN. I know, but the subsidy is to the company.

Secretary REICH. But the subsidy to the company does have an effect upon the worker because, as we were talking about before, an employer's decision with regard to what to pay and also who to hire is related to the cost of the employment.

The CHAIRMAN. Well, let us forget the subsidy. Let us assume that the average wage in the plan is $25,000 a year so they do not qualify for any kind of subsidy. You still have this problem that a person who is making $25,000 a year is going to be paying 7.9 percent of his wages and a person making $100,000 a year is going to be paying 7.9 percent of his wages, and they both receive the same coverage.

Secretary REICH. Well, the actual premium would be the same for the same coverage. That is right.

The CHAIRMAN. So, going back, let us use 8 percent rather than 7.9 for easy figuring. A guy making $20,000 a year is going to be paying $1,600 a year for his coverage.

Mr. BOWLES. Senator, that is not right.

The CHAIRMAN. Well, correct me on that.

Mr. BOWLES. There is a subsidy for low-wage employees up to 150 percent of poverty, so that takes you up I think to around $22,000, as I recall.

Secretary REICH. That is right. There is that special subsidy for up to 150 percent of poverty that goes up to that 20 percent level.

The CHAIRMAN. Well, let us raise it to $40,000; let us get them out of poverty, then. I still want to make the point. If they are making $30,000 a year they are not in poverty. Right?

Mr. BOWLES. Then, Senator, they have a choice, and they have a choice among three different types of plans. They have a choice among an HMO, a PPO and a fee-for-service. And they can choose the plan which costs them what they can afford. And if, in fact, they can afford an HMO, that is what they will choose. That will hold their costs down. That will cause them to make decisions based on both cost and quality.

The CHAIRMAN. But do you think that is fair for them to be caught in that predicament? They are going to have to make a choice——

Mr. BOWLES. Senator, today, in a small business or almost any business you do not have any choice. The person who makes the choice is me, the owner of the business. Nine out of ten people who have health care in this country today get it where they work. The person who makes the decision is the owner of the business. I choose what kind of health care they can get. They do not have a choice today.

Under our plan, they get a choice, and they get a choice among three different types of plans: an HMO, a PPO and a fee-for-service. Their doctor can join many different types of plans. I think it is very fair.

The CHAIRMAN. On the other side of the coin, the lowest paid employee in my office, if that employee has the same policy and the same coverage I have, he or she is also paying the same premium I am paying. Is that not correct? I happen to have BACE. If some-

body else in my office has the same plan I have, and I think I pay $175 a month or something like that. The lowest paid employee in my office who chooses that same coverage is going to pay the same premium I do even though they may only make a third or a fourth of what I make. Is that not correct?

Mr. BOWLES. If they choose the exact same plan that you do, that is correct.

The CHAIRMAN. Well, I have heard some complaints about the regressive part of this plan; and that is that the person making $100,000 a year is going to be paying a much higher premium. Even under your illustration of the three choices, they are still going to be paying a much higher premium for essentially the same coverage. I'm not squawking about that; I am just asking if that is not the case.

Let me make one other point.

Mr. BOWLES. Senator, they do not pay a much higher premium. It may be a higher percentage of their wages, but they do not pay a higher premium.

The CHAIRMAN. The company is going to pay 80 percent of the premium.

Mr. BOWLES. Right.

The CHAIRMAN. And that is 7.9 percent. They are not going to pay more than the 7.9 percent.

Mr. BOWLES. But the 7.9 percent is the cap. That is the most they can pay.

The CHAIRMAN. That is the most they have to pay.

Mr. BOWLES. The premium would be something like let us say $4,100 or $1,900 for a single employee. If it is $4,100 it would be 80 percent of that, and then you divide that by the average number of working people within the alliance, and so you end up paying about 57 percent of it. That is what the employer pays.

The employee pays 20 percent of the premium, and that would be 20 percent of the $4,000 premium or 20 percent of the $1,900 premium if it is an individual.

The CHAIRMAN. Let me just ask one quick question. I want everybody here to have a chance to question Secretary Reich.

For those who are under this 24 years of age and dependent on their parents, there is a suggestion that this plan is going to cause low-wage employers to opt for hiring younger people who are still dependent on their parents instead of hiring adults. Do you think that is a legitimate complaint, Secretary Reich?

Secretary REICH. Well, if you are under 24, a full-time student and you are dependent on your parents——

The CHAIRMAN. You do not even have to be a student.

Secretary REICH. Well, not if you are under 18 and you are covered by your parents. If you are dependent on your parents you are covered by your parents. Full-time students under 24 certainly do not pay, nor do their employers.

Now, your question is: Is it fair for that to occur?

The CHAIRMAN. The question is: Are employers not going to opt for youngsters who are dependent on their parents?

Coverage is not the issue; it is dependency.

Secretary REICH. Right.

The CHAIRMAN. Now, is that not going to encourage employers to hire these dependents whom they would not have to cover?

Secretary REICH. Remember, under the current system there is a huge amount of cost-shifting going on already. That is, under the status quo, employers have every incentive in the world, if they are not providing health coverage, to hire people who are members of families that get their health coverage from some other employer. And that is one of the great unfairness about this system. In fact, small businesses that are providing insurance very often find themselves paying a higher rate because they are subsidizing employers who are not providing health insurance.

The CHAIRMAN. Let me ask one final question because this really goes to the heart of one of the things this Committee is concerned about.

I take it from your testimony that you do not believe there will be a loss of jobs in the small business community of this country if this bill were to pass intact.

Secretary REICH. I do not.

The CHAIRMAN. Erskine, since you have gotten into this, do you agree with that?

Mr. BOWLES. I do support that, yes, sir. And I think I have good reason to do such.

The CHAIRMAN. Senator Pressler.

Senator PRESSLER. I am going to yield to any of my Republican colleagues who have to leave early. I am going to stay, so I can go to the back of the line if that is agreeable.

The CHAIRMAN. All right. Senator Bond.

Senator BOND. Thank you, Mr. Chairman, and Senator Pressler. I am proud to get here however I do. I will not take a long time.

I think, gentlemen, the line of questioning that the Chairman has just engaged in shows that it is extremely complicated and complex, even for those of us who are attempting to follow this scheme on how it would work. I believe that you have laid out, in describing the confusion and the conflict, precisely the first of a number of reasons why this is a problem for small businesses. If people cannot figure out how it works, it is a problem.

And that is why I suggested in my opening remarks that one of the major flaws in this plan is to attempt to mandate businesses, to provide coverage, and then to provide some kind of subsidy to the businesses. I have stated already that it makes far more sense, if we are going to subsidize those who do not have health insurance, to subsidize those on the basis of the need of the individual. So that the individual who is below poverty, for example, would get the 100 percent voucher as outlined in the plan submitted by my colleague, Senator Chafee, and others.

I ask you why, Mr. Secretary, individuals—focusing on the individual—and individual subsidies would not be an acceptable way to ensure health care coverage for all.

Secretary REICH. Senator, some of the major problems that small businesses face, and individuals face for that matter, have to do with the bargaining leverage they have, because they just simply do not have bargaining leverage when it comes to big insurers.

Another problem has to do with the lack of community rating. That is, if they have a pre-existing condition, if they are a high-

risk group, they have to pay far, far more, and sometimes they cannot get insurance at all.

Another has to do with the administrative costs, the bureaucratic costs, that individuals or small businesses have to pay.

Now, all of these problems exist if you do not put people together in these health alliances with their economies of scale, bargaining power, and community rating.

Right now, the problem is not so much that small businesses are not providing health insurance for their employees. Most small businesses are providing health insurance for their employees. The problem is that it is very, very expensive for them to do it. We want to build on what is good about the present system, which is that it is an employer-employee based system. It has worked very well. But small businesses are having a very hard time with it.

Senator BOND. I would agree with that. I believe that we can deal with all of those problems you outlined. We provide for community rating, age-adjusted, which is an important benefit based on the problems we have seen in New York. The ability to participate in cooperative health care purchase has been demonstrated in California through their voluntary alliances. They can go down to three, and the largest health insurer in California is now voluntarily allowing anyone to come into the system.

I do not believe that anything that you have outlined as a problem in the system justifies the tremendous burden, confusion and complexity and limitation of choice that this plan would put on small businesses and their employees. And I would say that it is just not credible. And I know of no reputable economist not working for the government or under contract for the government who can make the case that a mandate to pay 80 percent of $2,000 or 80 percent of $4,200, even with a complicated system of subsidies, will not cost jobs. I just find that to be absolutely incredible and totally in contrast to the objective, independent, bipartisan views of economists who are not involved in the system.

I hope you will respond to that.

Secretary REICH. Senator, with due respect, I will put you in touch with as many economists as you would like who will make exactly the same point as I with regard to the additional potential increased labor costs of 15 to 30 cents an hour for small businesses that do not now provide coverage and the potential employment consequences. There have been many, many studies, and again, I am happy to forward those studies to you.

Senator BOND. Mr. Chairman, I will conclude my remarks. I believe Ms. Tyson has said 600,000 jobs would be lost. You are saying 15 cents an hour. If there are 2,000 hours normally worked by an employee in a year, somehow that does not quite come up to the $1,800 or $4,200 figure. That comes out around—15 cents an hour is not——

Secretary REICH. Two points, Senator. First of all, the 15 cents is with the 3.5 percent cap. The cap is for a small business that pays its workers minimum wage.

Second, just going back to Dr. Tyson, Chair of the Council of Economic Advisors, in fact, she said that the employment effects would be in a range of plus or minus .5 percent. And some people said, well, that is from a range of positive 600,000 to negative 600,000.

She was simply talking about the uncertainties. Her conclusion was that it would have a negligible effect; that is, no real effect on employment, which is precisely the same conclusion I am giving you.

Mr. BOWLES. I should add that the CBO report says that it will not result in job loss. In addition, the Economic Policy Institute says it will create 258,000 manufacturing jobs. The Employee Benefit Research Institute says it will create up to 660,000 net jobs. The Brookings Institute says it will create 750,000 jobs in the health care sector alone, and those are not administrative jobs. I think there are lots of examples we could give you, Senator.

Senator BOND. Well, Mr. Chairman, I am not going to get into dueling economists. I would say that Barry Bosworth of the Brookings Institute probably hit it best when he said it could cost—he said the cost to the economy could be anywhere from $70 billion to $300 billion, but really, nobody knows what the hell it is going to cost. But I believe, based on what people have told me in small businesses, there is absolutely no way that there will not be a significant job loss. So we have a very strong disagreement.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Wellstone.

Senator WELLSTONE. Thank you, Mr. Chairman. I will try and be brief. Other colleagues are here. These questions could go to either one of you all. I will not jump into this debate about the different studies estimates, but I do think there is a lot of important data out there that support what our witnesses have said, and I very much appreciate your effort.

I will tell you one thing that was new to me today, and I am going to follow up, Mr. Secretary and Mr. Administrator, on what the Chairman asked. I was under the impression that the medical costs of worker's compensation would be folded in and covered. I have to tell you that when I meet with small business people back in Minnesota that some of the concerns my colleagues have raised indeed are concerns that people have. Senator Levin is right; it sort of depends upon the small business. But this was perhaps the strongest selling point.

I believe that when the First Lady met with us at one point in time, she said that workers' compensation health care costs would be folded in. Now, today, I find out that it is really not.

Secretary REICH. No, no. Let me——

Senator WELLSTONE. But they have to still pay a separate worker's compensation insurance premium. If that is the case, I am surprised to hear it.

Secretary REICH. Well, the medical care component is folded into the new system, which means that the medical costs are lower because the care is provided through a cooperative or alliance. A commission will be created to study how to better integrate the insurance component of workers' compensation and the Health Security Act.

But, you see, we want to keep the incentive there for employers to maintain the healthiest and safest work conditions possible. So the experience rating is still very important. They will get all the benefits of lower health care costs, all the benefits of the pools, all

the benefits of lower administrative cost, all the benefits of community rating, all of the benefits which we have just talked about.

The question is: Are unsafe work places going to be charged a little bit more than safe work places? For the time being the answer is yes, but there will be a commission that looks at whether that should continue.

Senator WELLSTONE. But the theory, as I understand it, is that through the alliance the cost will be less and, therefore, that will help out small businesses.

Secretary REICH. Absolutely.

Senator WELLSTONE. But at one point in time, unless I am wrong about this, I thought that the worker's compensation health costs would now be a part of the coverage that we defined as universal coverage. At one point in time, that was the direction we were going. Under single payer, that is certainly the case. And that was one of the strongest selling points for the small businesses. But that is not the case.

Secretary REICH. The case is exactly as I stated it, for now. But again, let me make sure we all understand where we are coming from. Small businesses, in terms of the health care itself, are going to get all of the benefits of lower, more efficient health care, community rating and everything else.

But right now, as the act is set up, unsafe, unhealthy work places pay a higher workers' compensation premium than safer and healthier work places. Again, there will be a commission that looks at ways of combining the two types of coverage, but right now, we want to keep that incentive.

Mr. BOWLES. Senator Wellstone, as you know, the medical portion of worker's compensation has risen over the last several years from about 35 percent to 41 percent. It was the only item on my income statement that rose at a more rapid rate than health care, and it grew at about 1.5 times the rate.

Senator WELLSTONE. Right. Right.

Mr. BOWLES. Under the President's plan, we will bring down the cost of workers' compensation by providing that care through the alliances at a cheaper, more efficient, more effective rate.

Senator WELLSTONE. Well, I hope so. I will be supportive in whatever ways I can be, but I am saying the initial formulation was different. At one point I believe we talked about including this as a part of what we said was universal coverage, and small businesses were excited about that. I am simply telling you that in my opinion, it is a big mistake not to fold it in. That is my point. OK?

I understand the theory of this. I am just saying that I wish we had gone with what was our original formulation. I am telling you that it would be one of the strongest selling points with small businesses.

The CHAIRMAN. Let me just say, if, the Senator will yield, I think he got that impression from Mrs. Clinton, just as I did. That is exactly the reason I pursued this line of questioning. I understood her that day to say that. And I must say that I have made several speeches based on that point.

Senator WELLSTONE. So have I. That is why I am dwelling on this point. I have at a number of community meetings made this point and people say, "Wow. Yeah."

Well, there will be plenty of opportunity to work with the bill and see what we can do.

The second point I want to make is very different, and this has to do with alliances.

The alliances have come under a lot of attack, and I would like to get the perspective of the two of you. I go back to what I said earlier. Many small businesses look at the health care industry and they do not see Adam Smith's free enterprise system in operation. You do not see lots of small health care businesses competing against one another. That is not the reality of it. Small businesses feel like they are up against an oligopolistic structure, and they are.

Look, I would rather have single payer. I hope States will have an option for that. I think that is a good way to do it. But if not single payer, then it seems to me if you do not have alliances, an alliance or alliances, depending on the size of the State, you have absolutely no public accountability, no accountability built into this process to deal with all of the cherry-picking, risk selection and abuses that take place in the insurance industry. How will we regulate it? There have been GAO studies on what has happened at the State level in regulating the insurance industry up to now and it is dismal. It is outrageous.

So, is it not true that the alliances, not only in terms of pooling, play a key role in protecting consumers including small business? How do we do it otherwise?

Secretary REICH. They have a critical role in all of the areas we have talked about. That is, in sharing the risk and the bargaining power in protecting consumers and avoiding what you described as cherry-picking, whereby insurers cover the individuals that are the easiest to insure, and avoid those who have pre-existing conditions.

The word "alliance" may be misunderstood. We could use the terms "purchasing cooperative," or "buyers' club." There are all kinds of ways in which businesses and consumers historically have gotten together to increase their bargaining leverage and to get a better deal. And this is nothing but that same old tradition.

Senator WELLSTONE. What I am talking about here, lest that sound like a conspiracy argument, is what happens if you have these health care networks that are competing against one another to keep costs down. We continue to see mergers, and 60 percent of the HMOs right now, managed care plans, are owned by the eight largest insurance companies. They already have a database in Massachusetts that tells them how to keep costs down. They know who to market to and who not to market to. They know who to serve and who not to serve. And, for that matter, companies may know who to hire and not hire. There has to be some way of making sure that does not happen.

So I think these cooperatives, or whatever you want to talk about, really are quite important. I just want to say to the Administrator that when he talked about the choice that people will have, I want to make it clear that the fee-for-service option is more expensive. I want to make it clear that we have right now in the ad-

ministration's bill an average-price plan, a lower-cost plan and a higher cost one. I want to make it clear that all too often it will not be the case that people will be free to choose because that choice will be in part governed by their economic situation. I worry about too great a disparity and too much stratification built into this system. I think that would be a big mistake, and I think small businesses may come out on the short end of the stick.

Secretary REICH. I do have a last point, and I do apologize, Mr. Chairman and members of the Committee. I have committed to testify before another committee beginning at 11 a.m.

But let me just say this in response to Senator Wellstone's point. We always have to compare not so much the better with the best, but the better with the present. And right now, many, many workers are not getting any insurance. If they are getting insurance through their employer, they are getting very little choice, and sometimes, no choice at all. As the costs of health care continue to skyrocket, even employers who want to provide health insurance are finding it more and more difficult because they cannot afford it.

What the President's plan does is ensure that everyone will have choices, especially a choice of private health provider and a choice of private insurance. Thank you very much.

The CHAIRMAN. Mr. Secretary, thank you very much for being with us. We may prevail on you to join us again for a subsequent hearing. Our next hearing is probably going to be devoted mostly to hearing from small business people, and possibly someone from CBO who could give us the benefit of some of their studies.

You have been very helpful to us this morning. We appreciate it, but I do want to say that we may ask you to return some time.

Secretary REICH. I would be delighted. Thank you.

RESPONSE TO QUESTIONS FROM SENATOR BUMPERS

Question 1. What is your assessment of the overall impact on job creation in the economy, especially among smaller companies, of either the administration health reform proposal or the other proposals?

Answer. The administration believes that our approach best produces universal coverage while reducing the potential for job loss. All firms will benefit from the President's plan, but small businesses have a special stake in health reform.

Today, the health care system is stacked against small businesses. Small businesses pay premiums up to 35 percent higher than large corporations for the same coverage. In addition, small businesses suffer from the worst aspects of the current insurance system, such as individual underwriting, occupational red-lining and age-rating.

The administration's proposal would eliminate this nightmare. Regional alliances will give small businesses and their workers the bargaining clout to negotiate low priced health insurance. The proposal will eliminate the discriminatory insurance practices that can so dramatically increase the cost of health insurance for small businesses today.

For the majority of small businesses, which still provide health insurance for their workers, the President's plan would achieve a substantial reduction in their labor costs. In addition, they would compete on a level playing field, not on the basis of whether they provided health insurance. For small businesses that do not presently provide employee health care coverage, the President's plan would raise labor costs, but only moderately, based on a system of subsidies that places substantial limits on these costs.

Under the President's plan, subsidies are available for small businesses with average annual wages up to $24,000 (about three times the minimum wage). The subsidies cap the cost of providing the standard benefit package at 3.5 percent of payroll for firms with fewer than 25 workers and average wages below $12,000. This amounts to just 15 cents per hour for a minimum wage worker. The cap gradually

increases to 5.3 percent for firms paying an average wage between $15,000 and $18,000 (twice the minimum wage) and 7.9 percent for those with average wages above $24,000. Because they are calculated on average wages, the subsidies will lower the cost for many workers well above the minimum wage.

We think that workplace coverage is the best way for all workers to get health insurance. Experience has shown us that universal coverage achieved through the workplace is a proven formula for people and businesses. Hawaii's experience with workplace coverage has been impressive—since it instituted workplace coverage in 1974, the unemployment rate is one of the lowest in the Nation, small business creation rates have remained high, and the rate of business failures in Hawaii remained less than half the national rate. In fact, the number of small employers in Hawaii grew almost 200 percent between 1970 and 1991.

The President's plan exempts health contributions for teenagers and students, thus strengthening their job opportunities.

Question 2. At intervals of 1 year, 2 years, 3 years and 5 years from the date of enactment, what do you believe will be the impact of the administration proposal (or other proposals) on job growth and unemployment?

Answer. The administration's and other proposals based on an employer mandate will have little effect on the employment level in this country. (CBO's analysis of the President's plan concurs with this conclusion.) In any case, the effects are sufficiently complicated—and off-setting—as to make impossible such precise figures as the year-to-year predictions suggested.

In contrast to the modest overall effect, comprehensive reform will bring major shifts in the distribution of health costs across employers. Currently, health insurance costs vary widely by the proportion of workers covered and demographic characteristics of the workforce—e.g., age, skill or wage level, and family status. These costs will shift substantially under comprehensive health reform.

Question 3. If such estimates as the above exist, how reliable do you believe they are, and what is their basis? If they do not exist, do you believe such estimates could be made with a reasonable degree of confidence based on existing data in the hands of either the Labor department or the Small Business Administration?

Answer. We are unaware of such detailed year-to-year estimates, and believe that if they did exist they could not be considered reliable. We believe, however, that the prediction of little effect on overall employment in the U.S. is a sound estimate.

Question 4. What kinds of companies and individuals do you believe would particularly benefit from the administration's or other health reform proposals? What kinds of companies are likely to be the losers?

Answer. The Health Security Act will guarantee all Americans comprehensive health benefits, including preventive care and prescription drugs and ensure that they can't be taken away. It will increase competition, forcing health plans to compete price and quality and ensure that insurance premiums no longer rise uncontrollably. As a result, most businesses and individuals will be benefited by health reform.

In general, comprehensive health reform will benefit those employers (and industries) currently offering health benefits and, among them, those whose costs are highest. The biggest "winners" will be older industries (e.g., mining and manufacturing) and small businesses currently offering health benefits, whose costs will fall the farthest.

Even small businesses not currently offering insurance, which will receive substantial subsidies, will be "winners." Health reform will enable them to provide benefits at lower costs—and attract more skilled workers.

Most individuals would be "winners" under health reform. For the vast majority of insured Americans—nearly 7 out of 10—our plan means paying the same or less for health benefits that are the same or better—on average, saving $61 a month on premiums, co-payments, and deductibles. The remaining 3 in 10 that will pay more (on average about $24 per month) will receive benefits that can never be taken away, and for many, better benefits.

Question 5. Does the administration contemplate any job placement or job training programs specifically aimed at those who might be dislocated by health care reform, or at businesses which might be no longer viable? If so, can you estimate the cost of such programs?

Answer. The Health Security Act includes provisions for a transitional program, through 2000, to provide retraining, job banks and other services for people adversely affected by health care reform. The Act provides for an appropriation of $200 million per year through 2000. DOL will be responsible for establishing programs to:

- provide skills upgrading and occupational retraining (including retraining health care workers as technicians, nurses and physician assistants) and for quality and workforce improvement;
- develop health worker job banks;
- facilitate the comprehensive workforce adjustment initiative.

DOL, in carrying out such programs, is also required to provide specific skill requirements, internal career movement opportunities, employment during retraining, evaluation and dissemination, and joint labor-management implementation, administration, discussion and consultation.

In addition, the administration has proposed the Reemployment Act, which would provide a comprehensive workforce adjustment mechanism. This would not only serve the needs of those affected by health care reform, but all workers who need assistance in finding new employment opportunities and job skills throughout their working lives. The Reemployment Act would consolidate programs and centralize information in an efficient manner to help all those who need assistance in an increasingly competitive economy. Our goal is not to resist change because some specific jobs may be lost, but rather to assist those who may be adversely affected by change get the information and skills to find new employment opportunities in a changing economy.

Question 6. Are there particular regions or States which are likely to benefit or suffer in terms of job creation or job loss as a result of health care reform? Are there particular regions which benefit from the current system and would continue to benefit from lack of reform?

Answer. From a regional or State perspective, there are two significant gains from health care reform. First, overall growth in health care expenditures will slow, freeing resources for other forms of economic benefits. Second, the administration proposal contains provisions that will allow the National Health Board to equalize costs among the States and regions over time. Some variation will continue to exist, of course, as a result of demographic and economic differences, but this variation will be less than under the current system.

There are significant differences among States today in their per capita expenditures on health care, but it would be difficult to argue that continuation of the current system would "benefit" anyone. Continuation of the current system means some States would waste more money than others, and that is not something that we should seek to protect or perpetuate.

Question 7. Do you believe health care reform will have any significant impact on innovation—either by individual entrepreneurs and researchers, or by R&D-oriented companies? Will reform affect our overall international industrial competitiveness over the next 5 to 10 years?

Answer. Health care reform would spur innovation in two important ways. First, by controlling health care costs, money is freed for other purposes, including, of course, R&D. The administration estimates that businesses will realize a net saving of $30 billion in 2000, and this savings will increase in the years thereafter.

Second, guaranteed health coverage for all Americans eliminates an increasingly significant impediment to entrepreneurship. Today, people who may have the ideas and commitment to start new businesses may be unwilling to do so because of fear of losing health insurance coverage for themselves or their family. It is important to encourage and reward people who take economic risks, but we should not make health coverage part of that risk. By providing universal coverage, health reform will make it easier for people to take the economic risks that have been such a major strength of our economy throughout our Nation's history.

With respect to international competitiveness, in a quantitative sense it is hard to make any meaningful measures—the necessary data and economic models simply don't exist.

Nonetheless, one can argue with some certainty that the Clinton plan will improve our Nation's international competitiveness for two reasons:

1. As the CBO's analysis states, overall expenditures by businesses will decline under the Clinton plan. For firms that are engaged in highly competitive international markets, this savings could enable them to lover prices and increase market share abroad.

2. The CBO analysis also states that the firms and industries today that are most heavily involved in international trade tend to provide health insurance coverage to their workers. Universal coverage would greatly reduce the cost-shifting that exists today between insured and uninsured workers. This, in turn, would enable these firms to lower prices in highly competitive markets.

Ultimately, the cost savings business realize could result in higher wages, more investment, lower prices, or some of all of these factors. The final distribution will depend on a number of factors, and it may well vary among firms and industries. But clearly, lover health expenditures won't hurt our Nation's competitiveness and may well help in certain industries.

Response to Questions From Senator Pressler

EMPLOYER MANDATES

Question 1. Small businesses already are running scared from the employer mandate. I am especially concerned over reports that some firms already have cut back on hiring in anticipation of health care reform that would force them to do so. What can you report about this trend?

Answer. We have not heard such stories, and the Small Business Administration has not received any confirmation of this trend. The competitive pressures of the marketplace would not permit employers—at least those who want to stay in business—to act in such a manner.

Question 2. President Clinton has, in certain aspects, presented the German health care system as a positive model for our own attempt at reform. However, unlike the administration's plan which requires employers to pay 80 percent of their employees' health care premiums, in Germany the cost of the premiums is split equally between the employer and the employee. This "payroll tax" to which German employers are subject is reflected in their overall labor costs and has thus made Germany the second most expensive country in which to employ people (Switzerland is first), and one with higher unemployment rate than the U.S.

Another point to consider is that if a 13.4 percent payroll tax is needed to finance the 10.6 percent of Germany's GDP representing health care costs, how does the U.S. expect to finance 14 percent of its GDP—the amount representing our health care costs—with 10 percent of payroll being the maximum premium paid to an alliance? Obviously, a financing gap will occur, but who will pay? Is it possible the government simply will reduce or completely eliminate the employer subsidies?

Answer. The German experience, like those of other industrialized nations, is worth examining because there are lessons to be learned about health care financing and controlling inflation. Germany and many other countries have societal goals similar to ours—the provision of quality, affordable health care to its entire population—but each country has tried different approaches. Germany is of particular interest because its approach is similar to what the administration has now proposed.

Your question, however, suggests that too much is being read into the German experience. German labor costs are high for a number of factors, the least of which may be health care expenditures. The restructuring of the European economy, the unification of Germany and the general stagnation of the European economy in recent years are just some of the other, significant influences on the German economy.

The question also implies that there is a 10 percent cap on payroll, which is to finance the health care sector of the economy. This assertion is incorrect on two accounts. First, the maximum cap any firm in a regional alliance will have to pay is 7.9 percent. Second, the contributions from employers and employees will constitute approximately 60 percent of total health care expenditures. As today, Federal and State revenues and other sources (e.g., personal expenditures and charity) will also contribute to total health care expenditures. The important point is that the administration's plan, by providing for a comprehensive reform of the health care system, will provide for a more equitable distribution of costs and decrease the overall rate of health care inflation. If the current system is maintained, health care expenditures in the year 2000 will constitute 17.5 percent of GDP, but under the administration plan, health care expenditures will decline to 16.9 percent of GDP. And, savings will continue to grow in the years thereafter.

Question 3. The mantra of the administration's plan is "Health care that's always there." Does the administration's plan carry a similar guarantee of protection for small business owners? Can they be assured their subsidies always will be there?

Answer. The President has stated on many occasions his unequivocal support for making health insurance affordable to small businesses. This commitment is reflected in the structure of the premium subsidies in the plan, and it is reflected in the 15 percent cushion added to the subsidy estimates, just to make sure that adequate funds would be available. Ultimately, of course, Congress must appropriate the funds for these subsidies, and therefore, there is no permanent guarantee. Given the President's commitment, however, and the strong bipartisan support in Con-

gress for maintaining and encouraging small businesses in our Nation's economy, it is highly likely that the premium subsidies for small businesses won't be at risk.

JOBS

Question 1. Nationwide, among the 3.5 million smallest firms, 73 percent do not offer health care coverage to their employees (L.A. Times 1994). Secretary Reich, you have claimed that the cost to small businesses of the health care plan would not dampen job growth and that most already provided it to their workers. How is it possible that what is essentially a payroll tax would not stifle the growth of the 2.6 million firms that currently provide no health care benefits?

Answer. The effects of reform have to be viewed in their totality. First, the administration proposal will end virtually all of the cost-shifting that exists under the current system. While it is true that some firms that do not provide health insurance today may be adversely affected under reform, other businesses which currently pay more than their fair share due to cost-shifting will realize savings that can be redirected toward new investment or higher wages. This, in turn, will help create new jobs.

Second, all firms will benefit from controlling the overall health care cost increases. For the majority of small businesses which do provide health insurance for their workers, the administration's plan would achieve a substantial reduction in their labor costs, a significant point that the Congressional Budget Office analysis confirms. The administration estimates that businesses will save $30 billion in the year 2000 alone, and this savings increases even more in later years.

For small businesses that do not currently provide employee health care coverage, the President's plan would raise labor costs, but only moderately, based upon a system of subsidies that places substantial limits on these costs. Firms with 75 or fewer employees and low wages will receive subsidies, with firms of less than 25 employees and average payroll less than $12,000 paying no more than 3.5 percent of total payroll on health insurance. This amounts to as little as 15 cents per hour for a minimum wage worker.

Some have argued that even these minimal additional costs could cause job losses, but the evidence simply does not support this view. The CBO analysis clearly finds that the administration's plan would not significantly reduce low-wage employment. Empirical studies of past increases in the minimum wage also refute the contentions of job losses put forth by the plan's critics. These studies show that moderate wage increases of the size that would be imposed by the Health Security Act would have minimal effect on employment of low wage workers. In fact, the plan will end the welfare lock that keeps the unemployed from accepting work that would leave them without health insurance.

Question 2. As I understand it, the proposed subsidies for small, low wage firms actually would encourage firms and workers to reshuffle in such a manner that we would find low wage workers largely located together in small firms.

This process of "sorting" has the potential to impose two types of costs upon small businesses: the cost of disrupted production as firms seek to reorganize; and the costs of inefficiency that would result as firms that did not actually have a production problem reorganize. CBO has estimated that sorting could increase the cost of subsidies to firms by $12 billion in the year 2004.

How do you predict this will affect our country's unemployment situation? How do you predict it would impact on the efficiency of America's workforce?

Answer. Small businesses are already hiring low-wage workers at an increasing rate, indicating economic advantage. Presumably, large employers would "spin off" units only where they believed market advantage existed—and not in the face of market inefficiency.

In addition, the President's proposed structure of subsidies along the dimensions of (small) size and (low) payroll are sufficiently graduated so as not to create excessively strong incentives for "outsourcing" low-wage units. The subsidies are not indexed, and will become less advantageous over time.

We are unaware of reliable estimates of the extent to which additional low-wage workers will be "sorted" into low-payroll small businesses—giving rise to the much higher subsidy outlays alleged.

Question 3. The administration has conceded that an employer mandate would lead to some job loss and a restructuring of the work force. It also claims that minimum wage jobs lost in restaurants and small manufacturing firms would be made up in the health care industry. Can the shift you predict occur without implementing additional, expensive job training programs? What would happen to those workers without access to retraining?

Answer. The overall growth in the economy, spurred in part by the controlling of health care costs, will provide an increase in jobs and opportunities for those displaced. In addition, the Health Security Act includes provisions for a transitional program, through 2000, to provide retraining, job banks and other services for people adversely affected by health care reform. The Act provides for an appropriation of $200 million per year through 2000.

Finally, the administration has proposed the Reemployment Act, which would provide a comprehensive workforce adjustment mechanism. This would not only serve the needs of those affected by health care reform, but all workers who need assistance in finding new employment opportunities and job skills throughout their working lives. The Reemployment Act would consolidate programs and centralize information in an efficient manner to help all those who need assistance in an increasingly competitive economy. Our goal is not to resist change because some specific jobs may be lost, but rather to assist those who may be adversely affected by change get the information and skills to find new employment opportunities in a changing economy.

Question 4. The administration also predicts that small firms currently offering insurance would see a reduction in premium costs and that these savings would be passed on to workers in the form of higher wages. Is there any evidence that workers would ever see these savings?

Answer. Most economists believe that workers bear most of the burden for health premium costs—passed back to them in the form of reduced wages. Recent studies have documented the pattern of declining real wages in the face of sharply rising health costs over the last decade or so.

Economists believe also that reduced health costs will be passed back to workers in the form of increased wages over time. Robert Reischauer of the CBO has said that "to the extent that business costs are reduced, these will result in higher wages." The administration's and other proposals with effective cost controls show health costs declining slightly by the end of the century, and substantially thereafter. The "winners" will be America's workers.

Would employees who choose a lower cost plan get to keep the difference between the cost of their plan and the average cost plan?

Yes. Under the Health Security Act employers will all contribute for their employees, covering 80 percent of the cost of the weighted average premium with individual contributions making up the difference. Employees who choose an average-priced plan will pay 20 percent of the premium while those who select a lower-priced plan will pay less, and employees choosing a higher-priced plan will pay more than 20 percent. Employers may still elect to pay the entire premium, leaving the employee with no cost at all.

Question 5. As large corporations moved to downsize during the 1980s, small businesses picked up the slack and created the bulk of the Nation's jobs. The flexibility in small firms allowed them to do this. The premium caps might offer incentives for firms to stay small in order to keep their government assistance. Such an incentive could compromise the flexibility of small firms and may hinder their growth. Have you studied the potential impact the subsidy system could have on small firms and what it might do to their flexibility, as well as their ability and desire to create new jobs?

Answer. The HSA will improve overall economic efficiency. Today millions of Americans stay in their jobs or on welfare only to retain their health benefits. Under reform, economic efficiency will be increased as individuals will be able to keep their health benefits when they switch jobs. Similarly, the administration predicts that health care reform will make companies, including small businesses, more flexible in their hiring decisions and growth opportunities as a result of health care reform. The question of "outsourcing", or companies staying small to keep their health care benefits is answered in the subsequent question.

Question 6. OMB Deputy Director Alice Rivlin stated that subsidies would provide an incentive for companies to spin off subsidiaries of lower wage workers in order to take advantage of government support. Does the administration have any predictions of the number of firms that would reorganize in such a fashion? What will be proposed to prevent this from happening?

The administration acknowledges that the proposed subsidies in the President's plan will create incentives for "sorting" low-wage workers into small businesses.

Such re-structuring of the labor market—"outsourcing" is already taking place in the absence of subsidies. We believe that any accelerated effect will be slight, and would constitute a reasonable price to pay for the gain (e.g., lower administrative

costs) of targeting subsidies on employers rather than workers. In sum, we do not see accelerated "sorting" as a problem.

We are unaware of any credible estimates of the extent of "sorting" that would be induced by the administration's proposal—with the exception of CBO's estimate, which is acknowledged as speculative.

Question 7. With the establishment of regional health alliances, the role of the small- and medium-size insurance agent would be virtually eliminated. There are about 150,000 Americans who make most of their living selling health care coverage. What, if anything, would you say to these small businessmen and women?

Answer. It is true that under health care reform there would be fewer administrative jobs in insurance, since under the administration plan there would be less paperwork and bureaucracy. Supplemental insurance, however, can be sold, and this would be marketed much as it is today, providing opportunities for insurance agents.

Question 8. Labor intensive industries, such as repair services and manufacturing, would see their costs rise the most. Some labor intensive jobs may be replaced by automation to save costs. Does the administration have projections on this possibility? How do you justify reform at the cost of lost jobs?

Answer. Universal health benefits would not increase labor costs, but, where health insurance is not currently provided, would shift compensation from wages towards benefits. In exchange, workers and their families gain substantially—i.e., the biggest "winners" under the President's proposal are currently-uninsured workers.

The technology-driven trend of substituting machines for workers has been proceeding for a century or more. Comprehensive health reform, while changing the mix between wages and benefits, will not affect this trend.

COSTS

Question 1. One estimate states the administration's plan would hand an $11 billion windfall to big businesses, while it would cost small businesses $18 billion. How can you justify such a radical redistribution of the costs of doing business?

Answer. The Health Security Act will level the playing field by requiring all businesses to contribute something for their employees' health care coverage. In addition the plan forces insurers to charge the same rate to all businesses large and small, effectively ending insurance market discrimination against small firms. Our estimates do not reveal any windfall for large businesses at the expense of small firms.

TAXES

Question 1. Previously you have stated that you do not expect the Clinton administration to propose any new taxes, yet the more research that is released on the administration's plan, the more inevitable raising taxes seems. Indeed, one study done by the Joint Economic Committee has likened the effects of the premium on the economy to nothing more than a $194 billion tax increase, rising to $400 billion by the year 2000. In other words, the administration's plan, as currently written, ultimately will burden households with an additional $3,550 in taxes per year.

It is widely known the administration has underestimated the costs of financing universal health care coverage. These miscalculations have the potential to result in a $1 trillion funding shortfall over a period of 7 years. Secretary Reich, do you still believe the Clinton administration will propose no new taxes?

Answer. The JEC study to which you refer is seriously flawed. First of all, the analysis of the administration's proposal was prepared by the minority staff of the Joint Economic Committee; the Committee chairman called the study "a partisan hatchet job . . . based on false assumptions and . . . absurd." The only independent analyses of the Health Security Act, by the Lewin VHI consulting firm and the Congressional Budget Office, effectively refuted the outrageous conclusions and erroneous assumptions of the JEC/GOP study. For example, over $800 billion of the supposed "financial shortfall" comes from a gross miscalculation of the amount of private spending after reform; the study falsely assumes that all spending for health care services will be constrained at the same rate, when the Act explicitly constrains spending for only those services covered under the benefits package; other private spending can reasonably be expected to rise at the same rate today, reducing any possibility of a "financial shortfall." There are numerous other factual and logical errors throughout the JEC report.

Nonetheless, several points need to be made in response to your question.

First, payments by employers are for premiums, not taxes. Furthermore, the money contributed by employers and employees would be a substitute for payments

currently being made. The difference is that under the Clinton plan the payments are being more equitably distributed and the rate of increase will slow compared to that which can be expected under the current system.

Under the current system, workers with health insurance are paying approximately 130 percent of their true cost. In effect, workers with insurance are subsidizing workers without insurance. That is unfair to workers and causes serious distortions in the economy. Furthermore, without reform, the inequities and the relative cost of heath insurance are only going to increase.

Second, there are taxes in the administration proposal, and we have called them such. There is, for example, an increase in tobacco taxes, and there are assessments on certain businesses and wealthy individuals who would otherwise realize a significant windfall under the early retiree provisions of the Health Security Act. Most importantly, however, the administration's numbers clearly show that by controlling health care cost increases, sufficient savings will be realized to pay for reform.

PART-TIME WORKERS

Question 1. The administration's plan proposes that firms pick up the tab for part-time workers—pro-rated, based on a 30-hour work week. I am very concerned that part-time jobs would be phased out as it became less expensive to hire one full-time worker than two part-time workers. Many parents, students, and others depend on part-time work to meet their needs.

Has the administration estimated the effect its plan will on the number of part-time jobs available?

Why is a 30-hour work week used for the baseline, rather than the 40-hour work week the majority of the business community recognizes?

Answer. The treatment of part-time employees under the administration proposal is equitable and neutral toward employment status. Covering part-time employees is essential if the goal of universal coverage is to be achieved. By pro-rating contributions, however, the cost of full-time or equivalent part-time employment remains the same: hiring one full-time employee or part-time employees for the same amount of time would result in the same employer contribution.

The 30-hour week was chosen to increase administrative simplicity. Although people generally think of a work week as being 40 hours, in fact nearly one-third of all workers typically work less than 40 hours per week. The 30-hour requirement significantly reduces the number of workers who would have to be classified as "part-time" if a 40 hour standard were used, thereby reducing administrative burdens for both employers and the regional alliances.

Question 2. The cost of providing insurance to 50 part-time workers is estimated to exceed $100,000 per year. Small businesses, such as restaurants and groceries, hire many part-time workers. These firms currently also are the least likely to offer insurance. These small firms operate strictly on cash flow and would not have the reserves to pick up this added cost, even with the subsidies. How do you propose these firms keep part-time jobs in the face of these enormous costs?

Answer. Under the HSA employers will have to contribute for part-time workers according to the following schedule:

- No contributions are required for employees working less than 40 hours per month.
- A pro-rated employer contribution is made for employees working between 40 and 110 hours per month.
- The full contribution (80 percent of the weighted average premium) is made for employees working 120 hours per month.

Small employers (75 employees or less) will be subject to a cap on premium payments, thereby assuring that they will pay no more than 7.9 percent of payroll, with many paying even less.

Because all employers will be required to contribute according to this schedule businesses will be competing on a more level playing field. Now many employers decline to offer any health insurance, thus escaping a cost of business incurred by employers who do provide health benefits to their workers.

This change will also make it possible for smaller businesses to attract higher quality employees who previously may have declined positions with companies not offering health insurance.

Question 3. There are 4.3 million part-time workers in the U.S. labor force. I am concerned that compliance with regional alliance reporting requirements would be an extraordinary burden for small businesses that hire many part-timers. What paperwork would be required for part-time workers? What would be the cost of admin-

istering the paperwork for small businesses? Would this cost outweigh the benefit of hiring part-time workers?

Answer. If part-time workers are "qualifying employees" (i.e., employed by an employer for at least 40 hours in a month) the employer must provide both the workers and the regional alliances with the same information as required for full-time workers.

Employers must provide each qualifying employee with:

(1) the total number of months of full-time equivalent employment; (2) the amount of wages; (3) the total amount deducted from wages for the family share of the premium; and (4) any other information required by DOL.

Employers annually provide the regional alliances with:

(1) For each qualifying employee, the total number of months of full-time equivalent employment and the total amount deducted from wages for the family share of the premium;
(2) the total employer premium payment for all employees;
(3) the number of full-time equivalent employees;
(4) other information required by DOL;
(5) amounts paid pursuant to the employer collection short-fall add-on; and
(6) the amount of covered wages for each qualifying employee.

Employers provide the regional alliances on a monthly basis with the identity of any eligible individual changing qualifying employee status and such individual's regional alliance area of residence and class of family enrollment.

When a qualifying employee is hired the employer must provide the regional alliance with information concerning the individual's identity, alliance area of residence, class of family enrollment, current health plan and whether the individual intends to enroll in a regional alliance health plan.

When an individual moves from another alliance area the employer must provide the worker with information about the regional alliance health plans, along with the enrollment form provided to the employer by the regional alliance.

TEMPORARY AND SEASONAL WORKERS

Question 1. Temporary work offers flexibility for a whole cadre of American workers and their number has increased dramatically over the last several years. The administration's health plan may take this option away from students, parents, and others who cannot commit to full-time work. Temporary agencies typically operate on a pretax profit margin of 2–3 percent. The added costs of this plan—even with a subsidy—could drive any temporary agencies out of business. This also poses a problem for firms that depend on temp work for special projects for which they cannot hire someone full-time. What percentage of premiums would employers be required cover for temporary help? What would the aggregate cost to employers be? How would this affect the hiring of temporary workers?

Answer. As discussed above, an employer's contribution depends upon the number of hours worked in the month by a qualifying employee along with the size of the employer's business (for purposes of the premium cap). The same schedule of payment applies whether the employee is considered permanent or temporary:

- No employer contribution is required if an individual is employed by an employer for less than 40 hours in a month (i.e. the individual is not a qualifying employee)
- A pro-rated employer contribution is required for qualifying employees who work for an employer between 40 and 120 hours per month
- The full employer contribution (80 percent of the average weighted premium) is required for those employees working for an employer for 120 hours per month.

In addition, employers with a workforce of 75 or less will be entitled to subsidies limiting their contributions to, on a sliding scale, between 3.5 percent and 7.9 percent of payroll.

Question 2. Another important sector of the American workforce is made up of seasonal employees. Agriculture, tourism, recreation, construction, and many other industries rely heavily on seasonal workers. The administration's plan would require employers to provide coverage for those employees that may work only a few weeks or months each year. What percentage of premiums would employers be required to cover? What would the aggregate cost to employers be? How would this affect the hiring of seasonal workers?

Answer. In general, the President's plan does not have special provisions for seasonal employees. Instead, seasonal employees are treated much like part-time and

temporary workers. Thus, in general, as for part-time and temporary workers, an employer's contribution for a seasonal employee will depend on the hours worked in a given month.

No employer contribution is required for a qualifying seasonal employee working less than 40 hours in a month, and the full employer contribution (80 percent of the average weighted premium) is required for seasonal employees working for an employer for 120 hours per month. Generally, a pro-rated employer contribution is required for qualifying seasonal employees who work for an employer between 40 and 120 hours in a month.

The HSA allows for the consideration of industry practice in determining whether or not an individual is a full-time employee. Under rules established by the National Health Board, an employee who does not meet the definition of a full-time employee (i.e., employed by an employer for at least 120 hours in a month) shall be considered to be employed on a full-time basis by an employer (and to be a full-time employee of an employer) for a month (or for all months in a 12-month period) if the employee is employed by that employer on a continuing basis that, taking into account the structure or nature of the employment in the industry, represents full-time employment.

If such an employee is considered to be a full-time employee then he would be responsible for covering 80 percent of the weighted average premium. If the employee was considered to be employed only part-time then the employer would pay a pro-rated employer contribution.

RESPONSE TO QUESTIONS FROM SENATOR MACK

Question 1. Let's look at a family of four—Dad has a full-time job, Mom has two part-time jobs, the older daughter is away at college, and the young son has a part-time job after school. That's four employers for this family. Under the Clinton plan, no employer or combination of employers for a family, would have to pay more than 80 percent of the premium. Please explain to me how this will work. What are the reporting requirements for each employer? To whom do they provide the information?

Answer. An employer is required to contribute to premiums and report information only for individuals who are "qualifying employees." If a young worker is under age 18, or a full-time student under the age of 24, and is his or her parents' dependent, he is not a "qualifying employee." A part-time worker who works fewer than 40 hours per month at a particular job is not a "qualifying employee" of that employer. Thus, it is likely that in the case of your family, the son's employer and one or both of Mom's employers will not be required to contribute premiums or report information for them.

In the case of qualifying employees, employers must report annually, for each employee, the total number of months that the employee worked full-time and part-time, and the total amount deducted from wages and paid for the employee's family share of the premium. Employers also report the total employer premium payments made for all qualifying employees for the year (and, if the employer is subject to a premium discount, the total premium payment the employer would owe without the discount) and the number of full-time qualifying employees and the number of part-time qualifying employees for the year. This information must be reported to regional clearance centers, which will be established by the National Health Board to serve as an information clearinghouse.

On a monthly basis, employers will be required to pay premiums and account to the regional alliance for the total number of qualifying employees working full-time and part-time, the number of hours employees in each category work, the employer premium contributions made for each employee, and the employee's health insurance policy status. Employers also will report the identity of each individual employed or terminated during the month (unless they are not "qualifying employees"), the individual's regional alliance, and the individual's class of family enrollment.

How long do they have to maintain the records?

This is not specified by President's proposal.

Are they required to provide it to employees?

Employers are not required to provide this information to employees. However they must, on an annual basis, provide to any individual who was a qualifying employee during any month the following information: the individual's total number of months as a full time and/or as a part-time employee, the individual's wages (while a qualified employee), and the total amount deducted from their wages and paid for the family share of their premium.

Who determines if the combination of employer contributions is more than 80 percent?

Under the Clinton plan, for a qualifying employee with family coverage, each employer pays 80 percent of an "adjusted premium" for a qualifying full-time employee (working at least 120 hours per month). The employer pays a pro-rata share for a qualifying part-time employee (working between 40 and 120 hours per month).

The adjusted premium is determined by the regional alliance. It is based on the average number of workers per family for the regional alliance. Of course, some families may have more workers than the average, and other families may have fewer. These balance out such that employer contributions within a regional alliance for all families together are 80 percent of the weighted average premiums for families.

By using this flat per-worker premium system, we have removed one of the greatest sources of complexity and unfairness in the current system: coordinating and tracking premiums, payments, and coverage for families with multiple workers.

Do alliances have the authority to audit small business owners records?

Yes.

Do alliances have to give notice to the small business owners that an audit is forthcoming?

This is not specified under the President's plan.

Will small business owners be able to have CPA's present at audits?

This is not specified under the President's plan.

Are small business owners responsible for paying CPA's to attend audits?

This is not specified under the President's plan.

If an error is made, will there be interest and penalty charges?

Regional alliances will use credit and collection procedures, including the imposition of interest charges and late fees for failure to make timely payment, as necessary.

What appeal rights do small business owners have if they disagree with alliance auditors?

This is not specified under the President's plan.

These reporting requirements are on top of other unfunded mandates and paperwork requirements from OSHA, EPA, IRS, Social Security Administration and a myriad of State and local departments and agencies. At what point do we say "enough"?

Our health system is in desperate need of reform, and the President's bottom line is guaranteed private insurance for all Americans. We think that workplace coverage is the best way to get this coverage, because it preserves and builds on our employer-based system. It makes no sense to scrap a system that works well for most people and start over.

To be effective, any health reform plan would require some enforcement mechanism. We feel that an employer-based system provides an efficient enforcement mechanism, in part because employers already comply with a variety of other benefit withholding requirements, such as for Social Security. In addition, there are only 5 million employers, where there are 220 million non-elderly persons who would have to be tracked under a plan which did not provide for employer withholding and reporting. Such a system would be more administratively complex and harder to enforce. As a result, the enforcing agencies would have ever expanding resource needs, which would result in ever larger appropriations requests.

Question 2. What research has been performed to determine the effect an employer mandate will have on the ability to create part-time jobs?

Answer. Let me give you an example from a letter I received from a small business owner in Florida. "The employer mandate would force me to reduce staff to manage cash flow. My two part-time employees would lose their jobs. Let me tell you about one of these part-timers. Jeanne is 73 years old. She's bright, active and puts in 20 hours a week. She need the extra income to supplement her Social Security income. If I'm forced to pay for her health care, she will lose her job."

By virtue of shifting all or part of Medicare costs from the government to small businesses we are making older workers less attractive to employers. After all, if the costs were retained by the Federal Government, small business owners would be more likely to employ older workers. If they have to pay these costs, there is no incentive to hire older workers.

From the older workers' standpoint, this is another roadblock to economic freedom. After all, they are subjected to the Social Security earnings test, the recently-passed Social Security benefits tax hike, capital gains taxes on investments, and the like. Why should we punish older workers who seek to supplement their incomes?

Older individuals who work part-time will not be punished by the Clinton plan. They will receive the same guaranteed comprehensive benefit package as other workers, with the same premiums as those other workers. And they will pay roughly the same amount for these benefits as they would have paid for coverage under Medicare Part B.

Employers may find the cost of covering the older worker to be lower than expected. In the case of a part-time worker employed more than 40 hours a month, the employer pays a portion of the employer's share of the premium for a full-time employee. In Jeanne's case, the employer would pay about 54 percent of her premium. (If the employer was eligible for discounts, it might pay a smaller share.) Because the Clinton plan requires insurers to community rate premiums and prohibits rating based on the worker's age, the premium of an older worker, such as Jeanne, would be no higher than the premium of any other part-time worker. If the employer currently provides health care for other employees, the substantial savings realized by the employer may mean that the employers total health care costs, even with the cost of covering the older worker, will be reduced.

In general, as the non-partisan CBO has stated, "The Clinton plan . . . would not significantly slow the economy or result in the loss of jobs, as many critics have charged." In fact, comprehensive health care reform is a necessary element in a strategy to increase long-term economic growth, reduce the deficit, and create new jobs. In fact, two independent studies, one from the Economic Policy Institute and one from the Employee Benefit Research Institute, predict that jobs will be created as a result of health reform.

Question 3. Small business subsidies are available to firms with average wages of below $24,000. Just yesterday, however, the Labor Department reported that wages and benefits increased by only 0.6 percent after inflation. Doesn't this approach encourage lower wages?

Answer. In recent years, average wages have risen slowly precisely because of the sharply increasing costs of employee health benefits. The cited figures from BLS indicate that health benefit costs are leveling—along with health costs generally—in response to the health reform debate.

Lower health benefit costs will increase wages for workers, and raise family incomes. The administration's proposal achieves substantial health cost savings beginning in the year 2000, and rising rapidly thereafter.

Small businesses (and their workers) will see the lowest health costs of all.

Also, won't this arrangement mean that one small business might pay the full 80 percent employer part with no subsidy, while a competitor pays its employees low wages in order to get a higher Federal subsidy?

How does this approach jive with the administration's rhetoric about a high-wage, high-skill economy? The subsidies would be going to many old technology firms. To me, the better approach would be to also provide the subsidy to high-tech, high-salary small businesses.

The administration's proposal structures small-business subsidies in such a way that those with low payrolls will receive higher subsidy levels; however, the differences are graduated, and not great for same-sized employers.

Large employers who join regional alliances will also receive substantial subsidies because of the cap at 7.9 percent of payroll. The administration's plan allows employers in all industries—both old and new—to join the regional alliances, and take advantage of these subsidies.

Further, the administration has repeatedly said that its proposal is wholly negotiable within the constraint of assuring universal health coverage at affordable cost. The administration has indicated its willingness to consider the approach—floated by Senator George Mitchell—of targeting subsidies directly on low-wage workers rather than on their employers. This approach would have the disadvantage of requiring increased Federal revenues for the same level of subsidy.

Question 4. Under the Clinton plan, most small businesses would be forced into alliances. What's wrong with permitting small businesses to simply pool their resources to form their own health alliances and avoid having to write checks to a government pool over which they have no control?

Answer. The Clinton plan requires all small and mid-sized employers (with up to 5,000 employees) to join a regional alliance to create a sizable pool; undoubtedly this pool would be larger than any health alliance voluntarily created by small firms in

the same area. The size of this pool is crucial to making it possible for insurers to offer low-cost community-rated premiums. The larger the pool, the greater the employers' joint employers negotiating strength will be, and the better able it will be to spread risk.

The regional alliances will not be government controlled pools; on the contrary, they will be operated by the consumers and employers whose interests they protect. The States have a great deal of flexibility in the creation of regional alliances: they can be nonprofit organizations, public corporations or State agencies. Regardless of the form the regional alliances take, the governing board will be made up of equal numbers of employers and consumers.

(Can many small businesses pool to the point that they have 5,000 in their pool and then opt-out of the mandated alliance participation? Why not?)

The Clinton Plan does not permit small businesses to group their employees to reach 5,000 employees in the aggregate to opt-out of mandated alliance participation and form a multiple employer welfare arrangement, or MEWA. MEWAs have been eliminated because, frankly, they have created the kinds of problems in our health system that cry out for reform.

Under current law, a significant number of MEWAs have, over the past several years, created tremendous problems for participants, employers, State regulators and the Department of Labor. These abusive and fraudulent MEWAs have bilked participants and employers out of hundreds of millions of dollars in premiums and unpaid claims. Moreover, States and the Federal Government have devoted vast resources and time to investigating, indicting, and prosecuting unscrupulous or fraudulent MEWA promoters and operators, without significant success in recovering claims for participants.

We believe that by eliminating MEWAs and creating regional alliances, we can preserve the best aspects of the MEWA-type structure (i.e.—pooling small and medium-sized employers together for purchasing power and community rating), while preventing the fraud and abuse perpetrated by many MEWA operators today.

We believe that the ability to form a corporate alliance generally should be limited to those with a strong employment based relationship. The union negotiated multi-employer health plans and the rural telephone and electric cooperative health plans are excepted from the regional alliance requirement because they have unique characteristics that make them suitable to be part of the reformed health system. Union plans, when negotiated pursuant to a collective bargaining agreement, offer greater reliability and accountability than MEWAs. Rural telephone and electric coops, because they have developed a way in which to successfully cover rural populations, are performing an important service that should not be dismantled. Moreover, union plans and rural coops, should they elect to continue under the Clinton Plan, will be required to meet the Federal standards for corporate alliances, standards which most MEWAs could not meet.

Response to Question From Senator Burns

Question 1. Studies show that the greatest impact of this health care plan will be in low-wage industries, specifically eating and drinking establishments, retail, construction, and agriculture. And these folks who are displaced are likely to experience long periods of unemployment due to diminished demand for their services. That seems like common sense to me—how do you respond? How would the mandate for employers to pay premiums affect job creation and wages?

Answer. The expectation that introduction of mandatory health benefits will have a negative impact on employment is based on the view that such a mandate would increase the cost of labor. This is presumed to decrease the demand for labor, thus lowering employment. To the extent that employers are able to shift the burden of the mandatory health benefits cost to employees, through a downward adjustment in wages and other benefits so that workers' total compensation level remains unchanged (and/or to consumers, through higher prices for their products), the negative impact on labor demand and employment will be attenuated. There is considerable evidence that changes in benefits are fully offset over the long term. The existence of minimum wage laws, however, diminishes if not precludes this possibility in the case of low-wage workers. Since low-wage workers with no employer-sponsored health benefits are currently predominant in small businesses, in certain labor-intensive services and other sectors of the economy, and concentrated in certain geographic regions, it does raise concerns that health care reform will diminish employment.

While such concerns appear to be founded on "common sense", the concluding prediction of substantial and long lasting damage to small businesses and industries

that employ large numbers of low-wage workers is not warranted. Some important factors are left out of the analysis of the employment effect of mandatory health benefits:

One important feature overlooked are the subsidies to small businesses which will accompany the mandated health benefits and will be designed to lessen any disproportionate incidence of the burden of mandated health benefits cost on these employers and the consequent labor demand decreases and job losses in these industries and labor markets.

Because of the subsidies for firms currently not providing health benefits to employees, health care reform would be represent only a small increase in the cost of labor. Under the President's proposal, this would be on the order of $0.15 to $0.35 per hour for a minimum wage worker in a small firm. This increase in health care costs introduced by the administration's proposal, unlike the high-cost benefit packages assumed in some analyses of the impact of mandatory health benefits, would be a modest one. A modest change in labor cost would yield a small decrease in employment but not the massive job losses projected by opponents of the administration's reform plan.Hence, short term negative employment effects of mandatory health benefits on a specific industry cannot be assumed to be permanent, nor can they be generalized to other industries and to the economy as a whole.

The CHAIRMAN. With that, Mr. Bowles, let us have your testimony. And if you could summarize as the Secretary has, that would be very helpful.

Mr. BOWLES. I will be very happy to.

STATEMENT OF HON. ERSKINE B. BOWLES, ADMINISTRATOR, U.S. SMALL BUSINESS ADMINISTRATION

Mr. BOWLES. Let me try to address some of the points that were made in your opening comments and, in addition, to talk to you about what I have heard as I have traveled around the country and now probably met with as many as 10,000 small businesses.

Many of you have said that a number of small businesses are unhappy with the current system. You are absolutely right. I do not believe that we could design a health care system that is more anti-small business than the one we have in this country today. As I have traveled around the country and listened to small businesses, I have heard them talk over and over again about the annual increases in the cost of health care of 20 percent to 50 percent a year. That is a year.

People talked about small businesses paying 35 percent more for the same darn health insurance that big businesses buy. Our rate of increase in our cost of health care is growing at a rate 50 percent higher than the rate of increases for big businesses. Over and above that, even with these skyrocketing increases in the cost of health care, the health care we are able to buy today just is not any good. It ends up being something that is just a bare bones plan or something that has such a huge deductible it only covers catastrophic events.

Worse than the skyrocketing cost and the poor coverage we get, we are also subjected to every one of those abuses that Senator Bond talked about. Everything from occupational redlining to exclusions for pre-existing conditions. I have a diabetic child. I have lived with an exclusion for a pre-existing condition. I cannot tell you the number of diabetic parents I met as I went around the country who were locked into their present jobs. These parents could not leave because they had a pre-existing condition, and if they left they would be out in the world without any insurance coverage.

So it is not just the skyrocketing costs and it is not just the poor coverage, and it is not even just the abuses. It is not a level playing field. Some of you talked about negotiating with an insurance company today to try to buy health care. If you are a small business person it is a non-negotiation. We do not have a benefits department, so we have to take time away from our business, time away from managing, time away from our customers to try to deal with the insurance carrier. And they change the name of the rules all the time. They have a different set of accounting. There is no way it is a fair negotiation. It is a non-negotiation. Plus, we have to take time away from running our business just to do it.

Also, if you are self-employed, today you get a 25 percent deduction for health care as opposed to 100 percent for everybody else. That is not fair.

In worker's compensation, you are right, Senator Wellstone. It is the only item on my income statement that rose at a more rapid rate than health care. The reason it did is because the medical portion of it is increasing at such a very rapid rate.

Well, as you all know since I have been here so many times, I come from the private sector, and I am a great believer in private sector solutions to problems. But I honestly believe that the private sector has failed us as it relates to health care, and particularly to small business owners. If you talk to your small business owners, they will tell you they have tried to hold down the cost of health care; they have tried things like switching programs; they have tried managed care; they have tried self-insurance; they have tried reducing benefits and passing along a bigger share of the cost to their employees. Nothing helps. The cost of health care continues to rise, and rise at about a 20 percent to 50 percent annual rate. Unfortunately, the smaller the business the more disproportionate the cost is.

Now, I believe that there is no solution to this health care crisis that the small business people face without universal coverage. I think universal coverage is the key, and I will tell you why. I will make it as simple as I can put it.

Basically, there are three payers for health care in this country. It is the Government, through Medicare and Medicaid; it is big business, which has enough market muscle to self-insure and cut a pretty good deal for itself today; and the rest of the people who pay are folks that I represent, the small business owners and the individuals who insure through conventional means. Anytime we here in Washington cut the Medicare and Medicaid budget, all that happens is that it gets cost-shifted down to the weakest link in the chain; that is the small business owner. That is why our costs go up 20 to 50 percent a year.

Those 38.5 million people that Secretary Reich talked about who do not have health care coverage in this country, do get health care; they just get it at the emergency room at four or five times the cost it would be in the doctor's office. And who pays for it? We do. The owners of small businesses. That is why our costs go up 20 to 50 percent a year. That is why we pay 35 percent more than anybody else. It gets cost shifted to us.

I believe the President, in designing his plan, really tried to focus on a system that would address these problems. I have heard peo-

ple refer to it as socialized medicine; I have heard people refer to it as some great, big government bureaucracy, particularly as it relates to the alliances. Let me address your point.

Senator Wellstone, I believe these alliances are no more than a buying group. What they do is they shift the power of the marketplace; they change the supply and demand equation from favoring the provider of health care and the insurance company to favoring us, the small business owner and consumer. What they do is they take thousands of inefficient buyers out there, group them together, and give them some real market muscle to bring down the cost of health care.

This is not a theory. Where it has been tried it has worked. I met with a group in Cleveland called COSE. That is the Council of Smaller Enterprises. COSE has 12,000 small members that belong to its buying group. They insure 75,000 workers and 180,000 lives. They offer 12 different types of plans. And sure enough, you know what? The cost of their health care is 35 percent lower than the cost of health care for others in Cleveland. And the cost increases they have experienced since 1986 has gone up 63 percent as opposed to everybody else's in Cleveland going up 170 percent. They also insure what we refer to as the working uninsured. The average member has about seven employees. That is the good news.

The bad news is: (a) they do engage in adverse selection, and (b) they have been in existence for 18 years. It has taken that long and that kind of fanatical leadership to put that group together, and we do not have that same kind of group in Charlotte or Atlanta or Houston or Minneapolis to bring down the costs there. We cannot wait 18 years for that to happen.

The other thing the President's plan does is simplify the system. It goes to things like uniform billing, electronic claims processing, standardized forms—things to take costs out of the system. And people ask me, "Can we take cost out of the system?" I say, "Absolutely." Today, in a doctor's office, a nurse spends 50 percent of her time filling out forms. The average nurse fills out 19 forms per patient per day. It is crazy. In a hospital today, 25 cents of every dollar you spend goes for administrative costs. It does not buy you a nickel's worth of health care.

I heard former Surgeon General C. Everett Koop say the other day that 25 to 30 percent of the diagnostic procedures performed in the country today are unneeded. If we could cut that waste out, we would save over $200 billion, he said. That is enough to cover the uninsured.

Senator WELLSTONE. The administration load and the over-use. Yes.

Mr. BOWLES. In conclusion, I think the President in designing his plan really tried to focus on a plan that would help small business.

First of all, the plan offers small businesses real insurance, comprehensive insurance, rock solid insurance. Not some kind of bare bones coverage or something that has such a huge deductible it only covers catastrophic events, but real insurance. It puts us on the same level playing field as everyone else.

Second, real insurance, comprehensive insurance, is no good unless you can afford it. That is what the subsidies are for. That is

what the discounts are for. To hold down the cost of health care so we can afford it.

The National Association for the Self-Employed came out with a study the other day. They do not prefer our plan; they favor Senator Chafee's plan. But they had a study, and in that study they said the average small business that today does not offer health insurance has an average payroll of about $7,600. Well, if that is true, that small business is going to be able to offer its employees absolutely rock solid, comprehensive, real insurance for a cost of less than $1 a day per employee. That is something we can afford.

That same study says that the small business that does offer health insurance has an average payroll of $15,600. Well, if that is true, that small business is going to be able to offer its employees real insurance for a cost of about $2 a day. You compare that to what you are paying today for bare bones coverage and there is no comparison.

In addition to real coverage and having the discounts there for small businesses so they can afford it, the third thing the President's plan does is have the premium caps in place so that insurance will not grow at 20 to 50 percent a year, so that we can afford it both today and tomorrow.

The fourth thing it does is that those abuses I talked about for pre-existing conditions are outlawed. There will be no more abuses for pre-existing conditions.

The fifth thing it does is it gives the self-employed the same kind of tax base that everybody else has. They get a 100 percent deduction as opposed to 25 percent.

The sixth thing it does is it provides the buying groups some market muscle to bring down the cost of health care so that we can have the same kind of competitive strength that the big companies do.

Last, our workers will have choices. They can choose among three different types of plans. As I said earlier, in response to Senator Wellstone's question, today, nine out of ten people in the private sector who have health care get it where they work. But two-thirds of those people do not get any choice. I make the choice—the owner of the small business makes the choice. Under our plan, everybody gets a choice among lots of different plans, and they can follow their doctor and their doctor can join many different plans. But they get a choice among three different types of plans.

So my point to you, Senator, is I believe if I was an insurance salesman going to a small business that currently offered health insurance, they would do backflips to have a chance to buy this insurance because it would be better coverage at a lower rate.

Now, everybody does not win under the plan. I am the first to admit that. Those small businesses today that currently do not offer health insurance will have to pay something. But, as we talked to them, whether it is our studies or NFIB's studies or anybody else's, the vast majority of those small businesses today that do not offer health care wish they could. But they give three reasons why they cannot. Those reasons are: (a) I just flat cannot afford it; (b) if I could afford it, what I would be able to buy just is not worth a hoot; and (c) if I can afford it today, I will not be able to afford it tomorrow.

Well, we did try to address all three of those points. First of all, it is real insurance, comprehensive insurance; second, the discounts are there so that they can afford it, to hold the cost of health care; and third, the premium caps are there to hold down the cost of health care so they can afford it both today and tomorrow so it does not grow at 20 to 50 percent a year.

The President has made it very clear that his bottom line in this whole insurance reform effort is guaranteed private health insurance for everyone that can never, ever be taken away. That is our bottom line. I have had a chance now to meet with over almost 10,000 small businesses; I have had a chance to hear their input; I have had a chance to take that back to the President. I am very excited about having a chance to listen to you all and to have your input, too. Thank you.

[The prepared statement of Mr. Bowles follows:]

PREPARED STATEMENT OF ERSKINE B. BOWLES, ADMINISTRATOR, U.S. SMALL BUSINESS ADMINISTRATION

Chairman Bumpers, Senator Pressler, and Members of the Committee, I appreciate the opportunity to appear before you today, and I am honored to share this opportunity to discuss the President's Health Security Act with Department of Labor Secretary Robert Reich.

Mr. Chairman, I would like to say up front that I do not believe we could devise a health care system that is more anti-small business than the current health care system that exists in this country.

We spend more for health care than any other nation in the world, and much of this burden is on the backs of small businesses.

The President's approach, the Health Security Act, represents a comprehensive solution that will benefit small businesses and their workers. The President wanted to be sure that his approach will help small business and that it will provide them with real insurance. As a result, for the first time ever, small business will be able to buy quality, comprehensive insurance at an affordable rate.

Mr. Chairman, I also am concerned by what could happen to our country and to small business if we don't enact comprehensive health care reform and do it now. Let's talk about what the current health care system is doing to our country first, and then what it is doing to small business.

RISING HEALTH COSTS: THE BIG PICTURE

The statistics reflecting the current health care system are frightening. Every month, as many as two million people lose their health care coverage for some period of time. During the next 2 years, it is likely that one out of four Americans will be without health care coverage for a period of time. There are, according to new estimates, almost 39 million Americans without health insurance today, and of those, almost 85 percent are working individuals or their dependents.

The rising costs of health care are out of control. The U.S. now spends more per capita on health care than any other country in the world; more than double what Japan spends and 40 percent more than Canada, which is the country that devotes the second largest percentage of its income to health care.

Twenty-five years ago, health care consumed 5.9 percent of Gross Domestic Product (GDP). In 1992, that number topped 14 percent to reach a staggering total of $840 billion. Today, it consumes nearly 15 percent of GDP and, if this trend continues, by the year 2000 we could see health care spending top $1.6 trillion and cost almost 18 percent of GDP. If we do nothing, health care costs will consume about two-thirds of the increase of GDP in the rest of this decade. Clearly, from a macro economic viewpoint, we have a serious problem in this country with our health care costs.

SKYROCKETING HEALTH CARE COSTS HURT SMALL BUSINESS

Small business is faced with the worst of all worlds with respect to rising health care costs. The small businesses that are still able to afford to provide their employees with health care coverage are experiencing skyrocketing cost increases. Health care costs have increased for small business at a rate of 20 to 50 percent a year. The administrative load on health insurance premiums is 35 percentage points high-

er for small businesses than it is for big businesses, and the rate of increase in the cost of health care for small businesses can be as much as 50 percent higher than the rate of increase for big businesses. Unfortunately, the smaller the company, the more disproportionate are the costs they pay for health insurance.

ABUSES OF CURRENT SYSTEM DISADVANTAGE SMALL BUSINESS

Not only have small businesses experienced skyrocketing increases in the cost of health care, they also have been subjected to blatant abuses that occur within the health care system. These abuses include such practices as occupational redlining, whereby insurers will simply refuse to cover entire industries perceived to be too high a risk. These industries often include such basic businesses as automobile dealerships, florists, grocery stores, barber and beauty shops, construction companies, and trucking firms.

Some insurance companies also engage in price baiting and gouging, by offering discounted rates for the first year of coverage, to be followed by much higher rates in the next year when pre-existing condition exclusions expire. Many insurance companies refuse to renew insurance policies if one of the employees of a small business gets sick and really needs insurance. When this happens, the insurer may either pull the policy or raise the cost to an unaffordable level.

OTHER WAYS THE CURRENT SYSTEM PENALIZES SMALL BUSINESS

Unlike large firms, small business owners generally don't have a benefits department. The small business owner or a valued employee must perform all the functions of such a department. As a result, the small business owner not only loses valuable time away from his business, but he also is at a disadvantage when trying to negotiate the purchase of health insurance benefits for his or her employees. Today, the variety of benefit packages are extraordinarily complicated to understand and are constantly changing.

A self-employed individual also operates at a disadvantage because of the inequitable tax policies for the self-employed. A self-employed individual is only allowed to deduct as a business expense up to 25 percent of the cost of health care coverage. All other businesses are able to deduct the full amount they pay for coverage. This is clearly unfair to the self-employed and increases their cost of insurance for their families.

Workers' compensation has also become a bigger burden to small business owners. In 1992, medical claims accounted for 41 percent of all workers' compensation benefit payments, up from 33 percent in 1980. Whereas the cost of health care increased by about 102 percent between 1980 and 1987, the cost of health care in the workers' compensation system rose by 151 percent during that period.

Clearly, small businesses have a large stake in solving the health care crisis in this country.

SOLUTION: UNIVERSAL COVERAGE

Today, together with individuals, three major groups finance the cost of health care in this country:

1. The government;
2. Self-insured companies—generally big corporations; and
3. Businesses and individuals that insure through traditional insurance companies—generally small businesses.

These groups finance virtually all of the nation's health care spending. When one of these groups does not cover its full cost, the others must pay more to cover that cost.

Large, self-insured plans frequently have a great deal of clout and can negotiate with providers for lower prices to reduce the impact of any cost shifting. Small employers, however, have no ability to reduce this cost shifting and must bear its full brunt.

This same cost shifting scenario also occurs when providers deliver uncompensated care, primarily to the uninsured. Make no mistake about it, the uninsured are provided health care in this country. They simply get it at the emergency room at four or five times the cost it would be at the doctor's office. Out of 90 million visits to the emergency room in 1992, a survey found that 55 percent were not urgent. And because there is no insurance coverage, someone has to pay for this treatment. Today, approximately $25 billion in hospital care takes the form of uncompensated care. Clearly, no part of the business community is hit harder by the high cost of the uninsured than small business because they have the weakest bargaining power.

Mr. Chairman, the best way to achieve universal coverage is through the workplace. Nine out of ten non-elderly people who have private health insurance today get it through an employer. The Health Security Act builds upon the current system and levels the playing field among employers by requiring all employers to make a contribution toward the cost of coverage, so that families and individuals are not left with the entire burden for insurance premiums.

Independent sources including the Congressional Budget Office (CBO) agree that an employment based system that provides subsidies to small businesses will work. The CBO found in "The Analysis of the Administration's Health Proposal" that the Health Security Act would reduce the growth of employer spending for health insurance, saving employers $90 billion for active workers and $15 billion for early retirees by the year 2004. CBO concluded that the Health Security Act would significantly benefit the smaller firms that pay more for health care than larger firms. CBO wrote that "(t)his leveling of costs could benefit all small businesses—not just those that provide insurance today"

The bottom line is that a solution that doesn't guarantee universal coverage with a comprehensive set of benefits to every American is simply no solution. Unless everyone is covered, we will continue to have the cost shifting that has gone on in the past. Unfortunately, the sector of the economy that will bear a big portion of this cost shift will be small business.

HOW THE HEALTH SECURITY ACT WORKS FOR SMALL BUSINESS

The Health Security Act provides small business with quality, comprehensive insurance coverage at an affordable rate. The President worked hard to give small business owners comprehensive and affordable insurance—for themselves and their employees—that could not be taken away.

The Health Security Act will control the skyrocketing cost of health insurance by increasing competition in health care, reducing administrative costs, cracking down on fraud and abuse, emphasizing preventive care, and by giving small businesses and consumers negotiating and buying power. The Act shifts the power of the marketplace to benefit the consumer. And as a backup mechanism, the Act puts a limit on how much premiums can be raised.

The Act makes the health care system more efficient. The plan reduces administrative costs through standardized forms, uniform billing, electronic claims submission, creating a uniform benefits package, and malpractice reform.

The Act also reduces the enormous burden of paperwork and administration that currently falls on small business. The cost of administering coverage in small companies declines because they purchase through health alliances that act to consolidate administrative functions for small and medium sized businesses.

Mr. Chairman, when I meet with small business owners, I explain to them that the Regional Alliances that they are hearing so much about are actually buying groups. These buying groups will consolidate the buying power of local consumers, large employers, and especially small businesses. The buying groups will limit the increase small businesses now incur in their health care costs because the groups will have the market power to bargain on behalf of a large number of members for quality, affordable health insurance. The buying groups will help to take excess costs out of the system for small businesses by collecting premiums, contracting with and paying the health plans, and providing information on the cost and quality to consumers. The buying groups return insurance to the traditional practice of spreading risk around a whole community of people and charging everyone the same price for insurance, regardless of their age, their job, or their health.

Clearly, the buying power of alliances provide administrative savings to the small businesses by delivering economies of scale in health plan negotiations, enrollment, and many other aspects of benefits administration.

The Health Security Act will give small business what it needs by offering:

1. Rock solid, comprehensive insurance coverage—not a bare bones plan or just catastrophic coverage, but real insurance. In addition it offers the general guarantee that no firm with fewer than 5,000 employees will pay more than 7.9 percent of payroll for health benefits. In addition, the Act will provide larger discounts to businesses with 75 or fewer workers if their wages average less than $24,000. These extra discounts are designed to provide adequate protection with a smooth transition as companies grow in size—enabling small businesses to continue to thrive and create jobs.

2. A limit on insurance premium growth to ensure that the cost of health care will increase by approximately the rate of growth of the rest of the economy, as opposed to current skyrocketing costs.

3. Elimination of insurance company abuses in the current health care system. If one worker in a small business or his or her dependent becomes seriously ill, the business will no longer see their rates jacked up beyond belief or lose coverage for the sick employee or dependent.

4. Full, 100 percent tax deductibility of coverage for the self-employed instead of the current 25 percent deductibility.

5. Real ability for employees to choose their own health plan from a number of alternative plans, including a traditional fee-for-service plan, something that many employees don't have today.

6. Finally, the plan removes the hassle that small businesses must now undergo in dealing with insurance companies and frees up valuable time for the small business owner to manage and grow his or her business.

Mr. Chairman, I am confident that when small business owners who provide insurance compare the Health Security Act to their current plan, the vast majority of them will see both a decrease in cost and better coverage. Small business owners who have wanted to offer their employees insurance but couldn't afford it will see a comprehensive plan that they can afford. And those very small businesses that pay low wages are going to be able to offer their employees rock-solid, comprehensive insurance coverage.

Every small business will not pay less under the Health Security Act, but many will. Those small businesses that have been scared off by the continuing escalating cost of health insurance and the relatively poor coverage will see a plan that they can afford.

Opponents of the plan claim that the Health Security Act will cost millions of jobs. But, the CBO directly refuted that the Act will not significantly slow the economy or result in the loss of jobs.

In addition, CBO concludes that the President's proposal will increase the cash wages of U.S. workers. A recent Health and Human Services (HHS) analysis, supports this, concluding that employers who now buy insurance for their workers will save an average of $605 per worker on premiums in the year 2000. That represents a total savings of $59.5 billion in the year 2000 alone. That same study concluded that small companies with fewer than 25 employees that currently provide insurance will save an average of $771 per worker on premiums and will see their premiums on a percent of payroll drop from an average of 9 percent to 6.

Mr. Chairman, it is difficult to evaluate the full employment effects of health care reform. We do know, however, that by leveling the playing field whereby all employers contribute toward a system of shared responsibility, those small businesses that today do provide health insurance will not have their premiums increased because of those small businesses that do not. Furthermore, the Health Security Act eliminates the bias against the self-employed, who currently can only deduct 25 percent of the cost of their health premiums from their taxes. The Health Security Act will bring greater equity to the system and encourage the formation of small businesses.

Finally, under the President's plan, individuals will no longer be locked into jobs because of the fear that they won't get health insurance if they change jobs, and employees will have new flexibility to open their own businesses without losing their health insurance. Individuals will be able to purchase affordable health insurance through purchasing pools, which will allow them to band together with other small businesses and self-employed individuals to negotiate lower health care premiums.

Mr. Chairman, I am convinced that small business owners, when they examine the facts, will realize the value of the Health Security Act. They will understand that the Act is good for small business.

Thank you.

HEALTH INSURANCE COVERAGE BY FIRM SIZE

This data was compiled for the Committee staff by Susan Otrin of the Small Business Administration, based on various recent studies as noted.

1. Share of workers in firms that offer health insurance. This is the equivalent of the firm-based method weighted by number of workers.

According to the May 1988 Current Population Survey:

81 percent of all workers are in firms that offer health insurance.

62 percent of workers in small firms are in firms that offer health insurance.

Firm size	Percent offered
1–24	51 percent
25–99	83 percent

Firm size	Percent offered
100–499	92 percent
500+	95 percent
<100	62 percent
100+	94 percent

2. Percent of employers that provide coverage by firm size. (Lewin-ICF study in 1991 found that 54 percent of all firms with fewer than 500 employees provided health insurance to their employees.)

Firm size	Percent offered
1–24	51 percent
25–99	93 percent
100–499	96 percent
500+	97 percent
<100	53 percent
100+	96 percent

3. HIAA study on employers who offer health insurance:

Firm size	Percent offered
<5	26 percent
5–9	54 percent
10–24	72 percent
50–99	97 percent
100+	99 percent
Average	42 percent

According to tabulations of this HIAA data by the Rand Corp, all but the very smallest firms are likely to offer health insurance.

Firm size	Percent offered
1	17 percent
2	26 percent
3	34 percent
4	33 percent
5	42 percent
6	41 percent
7	70 percent
8	50 percent
9	77 percent
10	85 percent

4. A study done by Jennifer Edwards, Robert J. Blendon, Robert Leitman, Ellen Morrison, Ian Morrison and Humphrey Taylor published in Health Affairs, Spring 1992, found the following:

Firm size	Percent offered
1–5	50 percent
6–25	75 percent
26–100	90 percent

The CHAIRMAN. Mr. Bowles, thank you very much for a splendid statement. Let me start where I left off a moment ago with Senator Burns.

Senator BURNS. I will be very brief. I want to state upfront that doing nothing is not an option, as far as addressing this problem.

I would agree with that. But I do not think you have to tear down the whole system or wreck the whole system in order to do it. I do not think we can go into it with the mentality that we had in Vietnam when you had to burn a village to save it. I see this coming within this.

I do not know whether you have read the enforcement part of the President's plan. I do not know want to talk about the President's plan, but I want to address each of the issues. As you said, the insurance companies themselves have come to the table and said, yes, we need some insurance reform. And they can handle that. Also, if we do something with pre-existing conditions, you have also addressed probably the biggest share of portability.

I would agree that what the President envisions, and probably what a lot of us envision, on buying cooperatives is already happening. What happens to my farmer in Montana who is now a member of the Montana Grain Growers Association and they have formed an alliance with other grain growers associations and they are purchasing their insurance through that? By the President's definition, that is not an alliance because that crosses State lines and they cannot do that.

Now, I do not think anybody has talked about the enforcement part of the President's package. If I want a second opinion,—and I think everybody is entitled to a second opinion—I may be violating that and be subject to a fine or some kind of forfeiture action. I mean, we can sit here and put all these pretty words on it, but I think probably the alliance part is already happening in the United States. I think if you give the marketplace a little more time, I think that is going to happen.

But let us address everything that you addressed. I think insurance reform we can handle. Now, you want to talk about how supportive the President is going to be whenever you start talking about tort reform, or taking some of that liability out of there, because I hear from doctors and I hear from other people that the majority of these tests are done as defensive medicine. So that if there is a lawsuit, or if they are subject to a lawsuit, the tests are there and they have something to base their defense on.

So let us talk about insurance reform. Do States have the rights to do some flexibility? And I speak to you not only as somebody concerned about the free enterprise system when it comes to the medical industry, but I also speak to you as a father who has a daughter in medical school that I am looking for somebody to adopt right now, for the next 3 years anyway, and then I will take her back after that 3 years.

I am on a bill that says there should be insurance caps. I have some real problems with that, and I do not think that will be in the final deal. But you cannot arbitrarily cut payments without cutting services. We cannot do that. Anybody who sits there and instead of just going the 50 percent way to socialized medicine, let us go all the way, as the Senator from Minnesota kind of wants to do. But let us call it what it is. Sure, you have three choices maybe in the plan. But basically, the small businessman has no choice.

I am worried about my farmers who cannot pass that cost along. Agriculture has never been able to do that. And that is what we are made up of in Montana, and they will be classified as a small

business. But let us do it incrementally. Let us draw the language up and say, OK, let us have some tort reform. Let us have some insurance reform. And go at it like that on the parts that need fixing. I think we can fix it.

Now, the President's plan is not going to pick up 100 percent of the people in this country. There are people who are going to still fall through the cracks because we have not done anything about welfare reform, and welfare reform cannot even pick up everybody.

So, what have we done for rural health? What have we done for community-based medicine? Nothing in this has addressed either one of those, and that is where the problem is because of the 37 million who say they do not have insurance—I want to know who they are and how long they do not have it, they are between jobs. But I think that is a greatly inflated number, to be honest with you.

Basically what the President wants is happening in the marketplace right now because the marketplace is driving because of the alliance. Would you agree to that?

Mr. BOWLES. Senator, you made so many comments, I would like to respond to all of them if I could. First of all, I do not believe our system is about tearing down the current system. I think what we are talking about is building upon what works. What we are talking about is building upon our current system of private sector health care, building upon our current system of employer-based coverage, building upon our current system of high-quality American health care, and building upon our current system of choice of doctors and plans. That is what we are talking about doing.

Now, these alliances you talked about, these alliances are not a great big bureaucracy. These alliances basically have three functions and three functions alone. That is, (a) to collect and pay the plans, to negotiate with the plans and to pay them; (b) to collect the premiums; and (c) to disseminate information to consumers based on choice and quality so they will be able to make an informed choice. Those are the only three things these alliances do.

But what they do is they remarkably change the supply and demand equation. They really do. They will shift the supply and demand equation from favoring the provider of health care to favoring the consumer and the owner of a small business to help us bring down the cost of health care.

You talked about tort reform. I believe there should be tort reform. And under the President's health care plan, if a State has a more aggressive action toward tort reform, then the State's plan can go forward. Also, in tort reform, we have practice guidelines; we have dispute resolutions, and we have limits on the attorneys' fees within our plan. But again, I stress that if a State, like your State, has a more aggressive plan toward tort reform, then that will apply.

You talked about State flexibility. In our plan, States are where the action does take place. The States will make the decisions as to whether or not you set up the alliance system or another system, like a single-payer plan if you wanted to have a single-payer plan in a particular State.

The States are the ones that make the decisions as to whether or not the health care plans have the financial ability and capacity

to deliver the comprehensive set or sets of benefits. The States are also the ones that really focus on the quality issue. So I think the States do have a lot of flexibility under our plan.

You talked about insurance caps, and the need for insurance caps. I truly believe that the alliances will bring down the cost of health care. I believe that malpractice reform, having an informed buyer, will make it so these insurance caps never come into play. But as you well know, they have to be in there for scoring purposes. That's one of the reasons you have to have insurance caps.

You also talked about rural health care. Again, I think rural health care is one of the things we have done our best effort to address. As you well know, in the rural communities, that's where a great number of the uninsured are. What we have tried to do through universal coverage is to cover the uninsured. So we focused on it.

In addition, we have a lot in there for Public Health Service. First, we have a great deal in there to serve the underserved. That is by having the doctor's office without walls where you could have electronic communication between the doctor's office and the rural community and the major medical center in the urban area. Second, by providing grants for transportation for people in the rural communities so they can get to the doctor's office or get to the Public Health Service office. Third, there are tax credits for doctors and nurses to locate in the rural community. Last, there are also tax credits for capital expenditures for doctors so they will even have a bigger incentive to locate in a rural community.

Senator BURNS. That is all I have. Thank you, Mr. Chairman.

Senator HEFLIN. Let me follow up a little bit on Senator Bumpers' question pertaining to workman's compensation and health insurance. I gather that several of us were under the impression that workman's compensation would be folded into this and there would not be duplication.

There are some problems with workman's compensation as it would apply to employees. Presently, they do not have deductibles or copayments in workman's compensation. You are saying that there is going to be a commission to study this. Has any thought been given as to that relationship between the employee who gets injured whereas his deductible—there is no deductible under workman's compensation; he gets paid, and no copayments—how you would develop that relative to a plan?

Mr. BOWLES. Senator, there is a commission being established to look into matters just like that. When you talk about merging an experience-rated system with a community-based system, it is indeed very difficult to do. But what we can do, day one, is provide the health care services for people who are in the workman's compensation plans through the alliances, and by doing that, we can provide them a much, much lower cost because we will have the market muscle to bring down the cost of health care.

Senator HEFLIN. Well, I think this is a political issue which I did not think about at the time. I do not know whether you are going to have support that is going to come from the employees, not employers, but knowing that if they get injured on the job that they will be forced to go to a deduction. It seems to me it ought to be addressed now rather than through some sort of a commission later

on which you do not know anything about. You are taking away, under that situation, some benefits that have inherently been available to employees. And if there is some uncertainty about it, it seems to me that matter ought to be cleared up before we move forward too far.

In regards to cost, I have not seen any figures but I would expect that there would be an additional cost today, say without assuming the health would be adopted, in the insurance premiums that would be paid, if an insurance premium did not have pre-existing conditions. Has any study been made on what the cost of that—do not misunderstand me. I think most everybody is agreeable that the pre-existing condition exclusions ought to come out. But, in trying to calculate the overall cost involved, that would be today, under the present situation, if you bought a policy in which there was not an exclusion for pre-existing conditions, what would be the additional cost as opposed to what it would be otherwise?

I haven't seen any elements of that, and I think those elements have to be involved in it as you consider the overall cost savings. Perhaps portability might be another issue involved there. I just have not seen any details of what might be available like that.

Mr. BOWLES. Senator, I will be glad to provide that to you for the record. However, I can speak from experience, having a diabetic child which is considered clearly a pre-existing condition. I can tell you that when the insurance agents come in to quote you a rate, they quote you a pretty good rate. But at the end of that time they tell you, "Oh, by the way, we do have to exclude these people who have pre-existing conditions." And when those people go on the health care rolls, the cost goes so high that you literally cannot afford it. It is enormous, the increase for pre-existing conditions.

Senator HEFLIN. I know of a congressman who had conditions, heart problems and carotid things, and under the insurance program that we have in Congress, when he left, he was required to be insured; he had that right. But that pre-existing condition was a substantial increase. He still got his insurance but he is paying several times more than what he was paying before, and this is an element of cost that I think we ought to look at and have some address to it.

One other question pertaining to small business. We have had the restaurant people in the last few days visiting up here, and we have had examples of where they were telling us that their margin of profit as compared to sales is very small, one indicating as low as 7.8 percent, and I understand that a good number of the restaurants operate on a margin of 2.7 percent of their sales. Of course, all the matter of subsidies and other things are largely based on not necessarily percentages of sales. There are certain businesses that will operate on a percentage basis where their margin of profit is low.

I do not know whether some consideration ought to be given to that. The only danger I foresee, though, in asking, we have a real problem of inspection, government regulation, how you would find out what that percentage profit would be. Do you have any thoughts on how you would handle that where there is a low rate of return from the investment or from sales?

Mr. BOWLES. Senator, we have tried to address that in a number of ways. First, I know you know this, but oftentimes people are misled to some extent. They are talking about 2.7 percent of revenues is what their profits are. But do not forget that the insurance premium is usually quoted as a percent of payroll, and payroll only makes up a portion of revenues. So you cannot equate one exactly to the other.

Two, we had tried to address the problems of particularly the low-wage small business by having the discounts for small businesses that are in the plan. Also, you have to remember that those discounts go up to 75 full-time equivalents, which is more than 75 employees because many businesses have part-time employees or seasonal employees, and you only count it based on a 40-hour work week.

In addition, there are people who you do not have to count for coverage. Senator Bumpers was referring to that a little while ago. You do not have to be responsible for providing health care benefits for anyone under the age of 18. You do not have to be responsible for providing health care to anyone under the age of 23 who is a full-time student. You do not have to be responsible for providing health care to anyone who works less than 10 hours a week or 40 hours a month.

So we tried, through the discounts, to make sure that the health care benefits were affordable to the small business, particularly those small businesses that are particularly low-wage payers and have fewer than 75 full-time equivalents.

The CHAIRMAN. Would the Senator yield? Did you just say that if a small business, or any other business for that matter, employees somebody under 23 or 24 they are not responsible for their coverage?

Mr. BOWLES. Yes.

The CHAIRMAN. That is the first time I have ever heard that. You said 23. It is 24, is it not? If they are under 24.

Mr. BOWLES. Senator, I believe it is 23 or under if they are also a full-time student. I believe if they are 18 and under you are not responsible at all. I believe if they work less than 40 hours a month you are also not responsible.

The CHAIRMAN. How about if you are dependent on your parents even though you are not a student?

Mr. BOWLES. I cannot answer that question.

Senator HEFLIN. That is all.

The CHAIRMAN. Senator Mack.

Senator MACK. Thank you, Mr. Chairman, and welcome, Mr. Bowles. I find that in many of our past opportunities to work together we are really on the same wavelength and share many of the same objectives. However, I find myself, in this discussion, adamantly disagreeing with you not on the basis of what the problems are with the administration's proposal. I do not mean it to be in any kind of adversarial kind of situation. However, in your enthusiasm to be supportive of the President's plan I think you, frankly, did a disservice to yourself and to many other small businessmen and women throughout the country. Your implication that employees today just do not have any choice, that they are forced to take the health care plan their employer is going to provide to them.

That is neat rhetoric, and I cannot help but believe that in your experience in running a small business, that you did try to take into consideration the needs and the concerns were of the employees that worked for you. I can tell you, having been also an operator and manager and president of a small business, that it would have been foolish for me, frankly, to put a plan together that was strictly designed on what my desires were.

I have always come to the conclusion that employees are happy working for firms which attempt to address their concerns This will result in the most effective and efficient work force, the most product; and, therefore, bottom line, profitability should be best. So I do not want to allow there to be the impression that under the present system, employees are just at the mercy of these cruel, harsh, inconsiderate employers. They do, in fact, make an attempt to find out what is in the best interest of their employees.

Mr. BOWLES. Can I address that?

Senator MACK. If you would. I would like to make some other points and then you can respond to it.

All of this leads me to the conclusion that the administration really does not understand the American people. I make that comment because I think it is important and true. Several years ago, I held a conference on health care in Jacksonville. I have held a number of them over the years to make myself knowledgeable on this issue. We had a couple of individuals who came down from Canada to present the Canadian plan. One of those individuals made the suggestion that the Congress should not try to take the ideas or the plans of some other country and superimpose them on your society. Really, what you have to do is to develop a plan that reflects the values of your society.

Again, and it seems to me that the conclusion the administration has made that Government must make the decisions with respect to health care. And so what you have, in fact, done is you have removed the place where the employer goes to bring his complaints about health care for his employees. Instead of doing it now with the insurance companies, you are going to do it through an alliance.

I would suggest to you, at least from my background and my experience, that employees, frankly, are better off having the situation where they can discuss with their employer and their employer then, working with insurance companies, to try to develop a plan that is best for that business, as opposed to a monolithic system, in essence, that is developed because of the alliance. That the only place the employer has to go is to that alliance.

And I want to tell you something. I think most people in this country believe they will be better able to work with their employers than they can with some bureaucracy. I will stop at that point and let you respond.

Mr. BOWLES. As you said, in many cases, we agree on lots of things. I think we also agree on the current state of the world for small businesses as it relates to health care. We really do have the worst of all worlds today, and so what we are both trying to get to is a solution.

The solution should build upon our present value system in this country. What we have tried to do is build a system built around

private sector health care; built around employer-based coverage and shared responsibility between the employer and the employee; built and based on choice of doctors and plans, and based on high-quality American health care.

Now, my premise is that the small business owner will never get a fair shake until we have universal coverage. If you are going to have universal coverage, I only know of three basic systems to provide that, and I prefer the employer-based system. Let me tell you why. One system is the single-payer plan, which, in my opinion, is just too much government for me. It is too much bureaucracy there, and it is built basically around taxes. That is not something that I could support.

Senator MACK. If you don't mind, I'd like to make one point. I understand your concern about the tax issue. But I would make the claim that you are really raising taxes through the alliance. And what the administration has done by taking the approach of using the alliance is they are trying to avoid talking about premiums as if they were not taxes.

Let me make a second point. You mentioned cost shifting earlier, and I think you mentioned there were three major payers for health care. One is Government, in the form of Medicare and Medicaid; the second is big business; and third is, in essence, the rest of us.

Mr. BOWLES. Right.

Senator MACK. It is interesting that no one really has addressed this question, and maybe it is because there is a lot of disagreement. I happen to believe that Medicare and Medicaid does not fully reimburse cost to providers; and that is an important element of cost shifting. The result of a failure to provide full cost reimbursement is that you have shifted the cost not to big business but in essence to small business.

Mr. BOWLES. Correct.

Senator MACK. I would say that I do not see anything in your plan that reduces the impact on small business because, frankly, it does not address the cost reimbursement of Medicare and Medicaid. And so what is going to happen is there will continue to be a shift in costs from the government programs to the rest of us, who in fact will be purchasing, under your plan, through the alliances. We will pay for that cost shift through higher premiums, which I would say, in fact, is taxes. I think that the Congressional Budget Office has in fact concluded the same thing.

Mr. BOWLES. Actually, I do not think they did conclude it was taxes. But let me, if I can, finish my point and then try to address your subsequent point.

I do think universal coverage is the key. I do think that without universal coverage you cannot end the cost shift. Unless you control both the public and private costs, you will never begin to take the cost out of a system because it will continue to be shifted.

I do not think the single-payer is the right way. I do not believe a family mandate is the right way. I think that shifts too much of the burden onto the family, and I believe the incentives are there for the businesses to drop their coverage and shift it to the family. So I do not believe the family mandate is the right way to go.

I do believe that the employer-based system, which is built upon a system of shared responsibility, is the right way. This is not a new idea. If you go back and read some of the comments President Nixon made in 1974, it sounds just like President Clinton. It is identical in its support for building upon our system of private sector health care and building on a system of employer-based coverage. If, in fact, you have in the plan the discounts for the small businesses so that the small businesses can afford it, then it is something that I have been able to support and support wholeheartedly.

Senator MACK. Mr. Chairman, I'd like to ask one more question, then I will end. We do have a fundamental difference as well in the issue as far as employer/employee based systems. Frankly, I think that the employer-based system is one of the areas that has created many of the problems that we are dealing with in health care today.

The employer-based system, as I understand it, came about as a result of wage and price controls during the 1940's. Business, in essence, found that the only way to compensate their employees was through some kind of health care program.

The only thing that employees buy for their employer is, in fact, health care. I think if we were to develop a plan that would place the focus on the employee ownership of the plan, then we would immediately address questions of affordability, job lock and pre-existing conditions. But we would interject, I think, more of the individual in the decision-making process with respect to health care.

I make that as a statement and conclude my comments at this point.

The CHAIRMAN. Thank you, Senator Mack.

Senator Kempthorne.

Senator KEMPTHORNE. Mr. Chairman, thank you very much.

Mr. Bowles, let me first compliment you on the job you are doing as Administrator of the Small Business Administration. I really do think you are doing an excellent job.

Mr. BOWLES. Thank you, sir.

Senator KEMPTHORNE. And as the Small Business Administrator, you are the Clinton administration's voice for small business; a very critical role that you have to play.

In your statements today, it is very clear that you strongly endorse the Clinton administration's health care plan. I would like to ask, did you help write portions of this plan?

Mr. BOWLES. I was able to have input into the plan as it was being developed. One of the things that the President asked me to do was to go out into the marketplace to meet with the owners of small businesses, to hear their concerns and ideas, and then to report those back directly to him. I did that. I had a chance to go out and meet with literally thousands of small businesses. Health care was the primary target of those discussions, and I did have a chance to have input into those decisions.

I believe one of the reasons that the discounts went from 50 to 75 employees was a direct result of some of these meetings we had, as an example.

Senator KEMPTHORNE. Last September, the National Federation of Independent Business, which is truly a spokesman for small

business, polled its members and found that 97 percent believe that the cost of health care was a serious or very serious problem. Can you tell me, does NFIB endorse this plan?

Mr. BOWLES. They do not. But you gave one statistic; let me give you some more because I just happen to have them here. The survey also showed that 64 percent agreed all Americans should receive a minimum level of health care regardless of their ability to pay; 64 percent said they would like to provide better or some health care insurance for their workers; and 60 percent plus of the small business owners felt that Government must play a more direct role in health care to bring costs under control. That is in that same survey.

Senator KEMPTHORNE. Now, has the U.S. Chamber or the National Association of Manufacturers or the Business Roundtable endorsed this plan?

Mr. BOWLES. No, sir.

Senator KEMPTHORNE. Has any significant business group of businessmen and women endorsed this plan?

Mr. BOWLES. There are a number of industry trade organizations that do favor the plan. I do not have a list of them here with me. I will be happy to provide them for the record.

[The information referred to follows:]

OPEN LETTER TO CONGRESS SUPPORTING EMPLOYER RESPONSIBILITY FOR EMPLOYEES' HEALTH CARE

Dear Member/Senator:

Health security for all Americans, that guarantees that no one lacks or loses high-quality health care coverage, is an essential element of health care reform. We believe that this objective should be achieved for working families by requiring all employers to provide and help subsidize health care coverage for their employees. We believe that such an employer mandate should be enacted for several reasons.

An employer mandate builds on our current employer-based insurance system and would be the least disruptive way to achieve universal coverage. It would be fair in that all employers and employees would be responsible for contributing towards coverage. It would level the playing field among different employers, most of whom provide such coverage today. And it would eliminate large, unpredictable and inequitable cost shifts that employers bear today for the uninsured workers of other employers. We recognize that some employers (and employees) will need financial help to meet their obligations. We, of course, support providing necessary subsidies.

We believe that an employer mandate is a fair, effective and practical means for achieving universal coverage. We, therefore, urge its adoption.

Sincerely yours,

NATIONAL ORGANIZATIONS AND BUSINESSES ACME STEEL COMPANY

- AIDS Action Council
- Amalgamated Clothing and Textile Workers Union
- Ambulatory Pediatric Association
- American Academy of Ambulatory Care Nursing
- American Academy of Family Physicians
- American Academy of Pediatrics
- American Association for Partial Hospitalization
- American Association of Pastoral Counselors
- American Association of Retired Persons
- American Association of University Professors
- American Association of University Women
- American Association on Mental Retardation
- American College of Nurse-Midwives
- American College of Obstetricians and Gynecologists
- American College of Physicians
- American Corn Growers Association
- American Counseling Association

- American Federation of Government Employees
- American Federation of State, County and Municipal Employees
- American Federation of State, County and Municipal Employees Retiree Program
- American Federation of Teachers, AFL–CIO
- American Foundation for the Blind
- American Geriatrics Society
- American Hospital Association
- American Institute of Architects
- American Lung Association
- American Medical Student Association
- American Medical Women's Association
- American Nurses Association
- American Postal Workers Union, AFL–CIO
- American Psychological Association
- American Society of Post Anesthesia Nurses
- American Speech—Language—Hearing Association
- The American State of the Art Prosthetic
- American Thoracic Society
- Amputee Coalition of America
- The ARC
- Architects/Designers/Planners for Social Responsibility
- Asociacion Nacional Pro Personas Mayores
- Association for Gerontology in Higher Education
- Association of Black Nursing Faculty, Inc.
- Association of Community Organizations for Reform Now (ACORN)
- Association of Nurses in AIDS Care
- Association of Rehabilitation Nurses
- Association of Schools and Public Health
- Association of Maternal and Child Health Programs
- Association of Women's Health, Obstetric, and Neonatal Nurses
- Bakery, Confectionery & Tobacco Workers International Union
- Bazelon Center for Mental Health Law
- Bethlehem Steel
- Campaign for Women's Health*
- Catholic Health Association of the United States
- Center for Community Change
- Center for Science in the Public Interest
- Center for Women Policy Studies
- Center on Disability and Health
- Ceridian Corporation
- Children's Defense Fund
- The Children's Foundation
- Children's Health Fund
- Chrysler Corporation
- Coalition on Human Needs
- Communications Workers of America
- Community Transportation Association of America
- Consumer Federation of America
- Consumers Union
- Council for Exceptional Children
- Eldercare America, Inc.
- Emergency Nurses Association
- Epilepsy Foundation of America
- Families USA
- The Federation of Families for Children's Mental Health
- For the Children of America
- The Gerontological Society of America
- Health Care for the Homeless Project, Inc.
- HealthRIGHT
- Health Security Action Council
- Independent Federation of Flight Attendants
- International Association of Psychosocial Rehabilitation Services
- International Association of Fire Fighters
- International Brotherhood of Electrical Workers
- International Chemical Workers Union
- International Ladies' Garment Workers' Union
- International Union of Automobile, Aerospace and Agricultural Implement Workers of America

- International Union of Automobile, Aerospace and Agricultural Implement Workers of America, Retired and Older Workers Department
- International Union of Bricklayers and Allied Craftsmen
- International Union of Electronic, Electrical, Salaried, Machine and Furniture Workers, AFL–CIO (IUE)
- Jesuit Social Ministries, National Office
- Laborers International Union
- League of Women Voters of the U.S.
- Legal Action Center
- National Asian Pacific Center on Aging
- National Association for Equal Opportunity in Higher Education
- National Association of Alcoholism and Drug Abuse Counselors
- National Association of Area Agencies on Aging
- National Association of Chain Drug Stores
- National Association of Child Advocates
- National Association of Children's Hospitals and Related National Institutions
- National Association of Community Action Agencies
- National Association of Community Health Centers
- National Association of Homes and Services for Children
- National Association of Letter Carriers, AFL–CIO
- National Association of Professional Geriatric Care Managers
- National Association of Public Hospitals
- National Association of Retail Druggists
- National Association of Social Workers
- National Association of Title VI Grantees
- National Caucus and Center on Black Aged
- National Community Mental Healthcare Council
- National Consumers League
- National Council of Churches
- National Council of Nonprofit Associations
- National Council of Senior Citizens
- The National Council on the Aging, Inc.
- National Council on Family Relations
- National Education Association
- National Eldercare Institute on Transportation
- National Farmers Union
- National Federation of Societies for Clinical Social Work
- National Hispanic Council on Aging
- National Leadership Coalition for Health Care Reform**
- National Mental Health Association
- National Minority AIDS Council
- National Multiple Sclerosis Society
- National Nursing Staff Development Organization
- National Organization for Rare Disorders (NORD)
- National Urban Coalition
- National Parent Network on Disabilities
- National Women's Health Network
- National Women Law Center
- NETWORK: A National Catholic Social Justice Lobby
- New Ways to Work
- Older Women's League
- Owner-Operator Independent Drivers Association
- Project Vote Fund
- Protestant Health Alliance
- Rohm & Haas Company
- Rural Advancement Fund
- Save Our Security
- Service Employees International Union
- Society of Adolescent Medicine
- Southern California Edison Company
- United Brotherhood of Carpenters and Joiners of America
- United Cerebral Palsy Association
- United Food and Commercial Workers Union, AFL–CIO
- United Mine Workers of America
- United Steelworkers of America, AFL–CIO
- Universal Health Care Action Network (UHCAN!)
- Washington Ethical Action Office/AEU
- Women's Legal Defense Fund

- World Association for Psychosocial Rehabilitation-U.S. Branch
- YWCA of the U.S.A.

*The Campaign for Women's Health represents 97 national women's organizations.

**The National Leadership Coalition for Health Care Reform is made up of over 100 organizational members—corporations, industrial companies, unions, consumer groups and health care providers (see attached list).

State and Local Organizations and Businesses

ALABAMA

- AARP Alabama VOTE
- Alabama Health Institute (Birmingham)
- Central Alabama Intergovernmental Minority Health Consortium (Birmingham)
- Health Education Linkage Programs, Inc. (Birmingham)
- Jackson County Department of Human Resources (Scottsboro)
- Madison County Democratic Women's Division (Huntsville)
- National Leadership Coalition for Health Care Reform—Alabama Coalition
- Project H.E.L.P. USA (Birmingham)
- Voice of Revelation Ministry (Ider)

ARIZONA

- AARP Arizona VOTE
- American College of Physicians, Arizona Chapter
- Arizona Council of Senior Citizens
- Santa Cruz Valley United Auto Workers Retiree Council (Tucson)
- Sun Valley United Auto Workers Retired Workers of Phoenix (Phoenix)

ARKANSAS

- Arkansans for Health Care Reform
- Arkansas District, Southwest Region, Amalgamated Clothing and Textile Workers Union
- Arkansas Education Association (Little Rock)
- Arkansas Seniors Organized for Progress (Little Rock)
- Central Arkansas UAW Retiree Council
- International Ladies Garment Workers Union Local 525 (West Helena)
- International Union of Electricians Local 1106 (Sanyo) (Forest City)
- International Union of Electricians Local 747 (GE) (Jonesboro)
- League of Women Voters of Pulaski County (Little Rock)
- Mainstream Living (Little Rock)
- Northeast Arkansas UAW Retiree Council
- Northwest Arkansas UAW Retiree Council
- Social Action Office, Catholic Diocese of Little Rock
- United Auto Workers Local 415 (Malvern)
- United Auto Workers Local 716 (Ft. Smith)
- United Auto Workers Local 1000 (Searcy)
- United Auto Workers Local 1091 (Hope)
- United Auto Workers Local 1107 (Ft. Smith)
- United Auto Workers Local 1482 (Melbourne)
- United Auto Workers Local 1550 (Marianna)
- United Auto Workers Local 1762 (Conway)

CALIFORNIA

- AARP California VOTE
- Access Center
- Affiliation of Marin Senior Organizations (San Rafael)
- Alzheimer's Family Clinics
- American College of Physicians, California Chapter
- Asian Pacific Coalition on Aging (Los Angeles)
- California Association of Persons with Handicaps (Long Beach)
- California Legislative Council for Older Americans (San Francisco)
- California Study Club (Los Angeles)
- Capitol of California Council of United Auto Workers/Retirees (Sacramento)
- City of Hope Duo Club (Studio City)
- Coleman Advocates for Children & Youth (San Francisco)
- Congress of California Seniors/LA County (Los Angeles)
- Electrical Craftsmen Golden Gate #62 (San Jose)
- Emma/Lazarus Jewish Women's Club (Los Angeles)

- Federation of California Dentists (Los Angeles)
- Federation of Retired Union Members (FORUM) Club (San Jose)
- Gray Panthers of Long Beach (Long Beach)
- Gray Panthers of San Fernando Valley (Studio City)
- HELP Anorexia & Bulimia, Inc. (Culver City)
- Health Access of California (San Francisco)
- I.B.E.W #332 Retirement Club (San Jose)
- Latino Issues Forum (San Francisco)
- League of Women Voters, San Diego County (San Diego)
- Mexican American Political Association (Fresno)
- Mothers, Inc. (Burbank)
- Multiple Sclerosis Society
- National Association of Filipino Dentists (Los Angeles)
- National Center for the Early Childhood Work Force (Oakland)
- National Council of Senior Citizens, Western Regional Office (Los Angeles)
- National Leadership Coalition for Health Care Reform—California Coalition
- Older Women's League, San Diego Chapter (San Diego)
- People for a National Health Program (Leisure World) (Laguna Hills)
- San Diego American Association of Retired Persons
- Seal Beach Leisure World Democratic Club (Seal Beach)
- Seal Beach Leisure World National Council of Senior Citizens (Seal Beach)
- Seinan Senior Citizens Club (Los Angeles)
- Senior Coalition Political Action Committee (Los Angeles)
- Sunset Hall (Los Angeles)
- Tri-State United Auto Workers Retired Workers Council (Needles)
- Tuesday Seniors (N. Hollywood)
- United Cerebral Palsy
- Utilities Commission Action Network
- Valley Federation of Senior Clubs (N. Hollywood)

COLORADO

- AARP Colorado VOTE
- United Seniors of Colorado (Denver)

CONNECTICUT

- AARP Connecticut VOTE
- Connecticut Hospice Incorporated (Branford)
- HOMED Company of New England (Newington)
- National Leadership Coalition for Health Care Reform—Connecticut Coalition
- Yale Diagnostic Laboratory (New Haven)

DELAWARE

- United Auto Workers Local 1183 (Newark)
- United Auto Workers Local 1183 Retiree Chapter (Newark)
- United Auto Workers Local 1212 (Newark)
- United Auto Workers Local 1212 Retiree Chapter (Newark)
- United Auto Workers Local 2234 (New Castle)
- United Auto Workers Local 404 (Middletown)
- United Auto Workers Local 404 Retiree Chapter (Newark)
- United Auto Workers Local 435 (Wilmington)
- United Auto Workers Local 435 Retiree Chapter (Wilmington)

DISTRICT OF COLUMBIA

- American Federation of State, County & Municipal Employees (Washington)
- D.C. State Council of Senior Citizens (Washington)
- District of Columbia Democratic Women's Club (Washington)
- Leo, Inc. (Washington)
- National Council of Senior Citizens, Gold Card Club #2801 (Washington)
- National Minority AIDS Council (Washington)
- Resident Council, 2801 14th Street (Washington)
- Sewing Class, 2801 14th Street (Washington)
- Washington Metro Area Chapter Top Ladies of Distinction (TLOD) (Washington)

FLORIDA

- AARP Florida VOTE
- Broward Coalition (Sunrise)

- Fancy Ferns (Estero)
- Gold Key Civic Assn./Sunrise Political Club, Inc. (Sunrise)
- Nassau County Council on Aging, Inc. (Fernandina Beach)
- National Association of Retired Federal Employees, Chapter #58 (Holly Hill)
- National Council Senior Citizens Sunrise Club, Inc., Chapter #3705 (Coconut Creek)
- National Council of Senior Citizens, Club 07084 (Sarasota)
- National Leadership Coalition for Health Care Reform—Florida Coalition

GEORGIA

- Albany Bowling Supplies, Inc. (Albany)
- Albany Security Consultants (Albany)
- CWA Local 3204 Women's Committee (Atlanta)
- Georgia Consortium for African American Aging, Inc. (GCAAA) (Atlanta)
- Macon Alumnae Chapter of Delta Sigma Theta (Macon)
- National Leadership Coalition for Health Care Reform—Georgia Coalition
- New York State Retired Teachers, Georgia Unit (Bogart)
- Tiny "T"'s Day Care (Albany)

HAWAII

- Honolulu Gerontology Program (Honolulu)
- Ramsey Enterprises (Kailva)

IDAHO

- American College of Physicians, Idaho Chapter
- Moscow/LATAN Public Transit (Moscow)

ILLINOIS

- American Association of Retired Persons, Chapter 2827 (Belleville)
- Firestone (Glenwood)
- McHenry County Retired Teachers' Association (Ringwood)
- Mental Health Association of Illinois Valley, Inc. (Peoria)
- National Association of Retired & Veteran Railway Employees, Chapter 118 (Belleville)
- National Leadership Coalition for Health Care Reform—Illinois Coalition
- Northwest Austin Council (Chicago)
- South Oak Dodge (Chicago Heights)
- Van Drunen Ford (Homewood)

INDIANA

- American College of Physicians, Indiana Chapter
- American Federation of State, County & Municipal Employees 1500 (New Castle)
- American Federation of State, County & Municipal Employees 3609 (Anderson)
- American Federation of Teachers 3153 (Muncie)
- American Federation of Teachers 757 (Albany)
- American Federation of Teachers 519
- Area 6 Council for Aging (Muncie)
- Ball State University School of Continuing Education (Muncie)
- Citizens Action Council (Indianapolis)
- Central Indiana Council on Aging (Indianapolis)
- Council of Volunteers and Organization of Hoosiers (Indianapolis)
- Carpenters 912 (Centerville)
- Central Indiana AFL–CIO (Indianapolis)
- Downey Avenue Christian Church (Indianapolis)
- East Central Indiana AFL–CIO (Muncie)
- Flanner House (Indianapolis)
- Hoosier Alliance for Consumer Reform (Indianapolis)
- Healthnet (Indianapolis)
- Indiana State Nurses Association (Rushville)
- Indiana University Medical Center, Psychology Department (Indianapolis)
- Indiana State Council of Senior Citizens (Indianapolis)
- Insights to Spina Bifida National Magazine (New Castle)
- International Union of Electricians (Muncie)
- Laborers 1112 (Muncie)
- League of Women Voters (Muncie)
- March of Dimes (Indianapolis)

- Mental Health Association (Indianapolis)
- Midwest Alliance in Nursing (Indianapolis)
- National Leadership Coalition for Health Care Reform—Indiana Coalition
- National Organization for Women (Indianapolis)
- Oil, Chemical & Atomic Workers Local 7706 (Indianapolis)
- Peace Center (Indianapolis)
- Planned Parenthood (Indianapolis)
- SOAR Golden Age Club (Indianapolis)
- United North West Area (Indianapolis)
- United Auto Workers Area 7 Retired Workers Council (Anderson)
- United Auto Workers Local 287 (Muncie)
- United Auto Workers Local 489 Retirees (Muncie)
- United Auto Workers Local 663 Retired Workers Chapter (Anderson)
- United Auto Workers Local 933 (Indianapolis)
- United Auto Workers Retirees Local 662 (Alexandria)
- United Food & Commercial Workers 123–I (Anderson)
- United Steelworkers of America 30–12213 (Yorktown)
- United Steelworkers of America District 30–2 (Muncie)

IOWA

- Bill's Coffee Shop (Iowa City)
- Heritage Area Agency on Aging (Cedar Rapids)
- Iowa Council of Senior Citizens
- Mr. Ed's Coffee Shop (Iowa City)

KANSAS

- AARP Kansas VOTE
- Carpenter's Local #168 (Kansas City)
- Carpenter's Local Retirees—Local #2 (Kansas City)
- Carpenters Local #168 (Kansas City)
- Carpenters Retirees Local #2 (Kansas City)
- Coalition for Independence
- Dickinson County Task Force on Aging (Abilene)
- Golden Fellowship (Kansas City)
- Harvey County American Association of Retired Persons, Chapter 2833 (North Newton)
- Independence, Inc.
- Kansans for Improvement of Nursing Homes (Kansas City)
- Kansas Campaign for Women's Health
- Kansas Education Association
- Kansas Farmers Union
- Kansas Psychological Association
- Kansas State AFL–CIO
- Kansas State Nurses Association
- League of Women Voters—Kansas
- Multiple Schlerosis Society—Mid-America Chapter
- National Association of Social Workers—Kansas Chapter
- National Leadership Coalition for Health Care Reform—Kansas Coalition
- Older Women's League of Johnson County
- Perinatal Association of Kansas (Topeka)
- Retired Teachers Association (Kansas City)
- Topeka AIDS Project (Topeka)
- United Auto Workers Local 31
- YWCA of Topeka

KENTUCKY

- Frankfort Area Central Labor Council (Frankfort)
- Health Security Network of Kentucky (Lexington)

LOUISIANA

- AARP Louisiana VOTE
- Allstate Security (Prairieville)
- Citizen Action (Baton Rouge)
- Friends Helping Friends at the Crossroads (Alexandria)
- Handicap Children Services (Baton Rouge)
- Lousiana Health Care (Baton Rouge)

- National Leadership Coalition for Health Care Reform—Louisiana Coalition
- Prompter (Metairii)
- St. James Survival Coalition (Vacheria)
- St. James Youth Center (St. James)

MAINE

- Adolescent Pregnancy Coalition
- Advocates for Medicare Patients
- AIDS Coalition to Unleash Power (ACT-UP/Maine)
- Alliance for the Mentally Ill
- Alpha One/Independent Living Center
- Alzheimer's Project
- Amalgamated Clothing/Textile Workers Union, Local 371
- Amalgamated Clothing/Textile Workers Union, Local 462
- Amalgamated Clothing/Textile Workers Union, Local 486
- Amalgamated Clothing/Textile Workers Union, Local 667
- Amalgamated Clothing and Textile Workers Union, New England Regional Joint Board (ACTWU/AFL–CIO)
- American Association of Retired Persons (AARP)—Maine Chapter
- AARP Maine VOTE
- American Federation of Teachers—Maine
- Aroostook Agency on Aging (AAA)
- Coalition for Maine's Children
- Community Concepts
- Developmental Disabilities Council (DDC)
- Displaced Homemakers of Maine
- Downeast AIDS Network (DAN)
- Downeast Health Center
- East End Children's Workshop
- Eastern Agency on Aging
- E.C.S. and Associates
- Family Planning Association
- Greater Portland Labor Council
- Health A.I.M.
- Homemakers Organized for More Employment (H.O.M.E.)
- International Association of Machinists, Local 1821
- Kenduskeag Oil Company (Northern Maine)
- Kennebec Valley Community Action Program
- League of Women Voters—Maine
- Mabel Wadsworth Womens Health Center
- Maine AIDS Alliance
- Maine Association of Acupuncture and Oriental Medicine
- Maine Association of Child Abuse and Neglect Councils
- Maine Association of Interdependent Neighborhoods
- Maine Civil Liberties Union
- Maine Chapter—Citizens for Health
- Maine Chapter—National Lawyers Guild
- Maine Community Action Association
- Maine Council of Community Mental Health Services
- Maine Council of Churches
- Maine Council of Senior Citizens
- Maine Foster Parents Association
- Maine League for Nursing
- Maine Lesbian/Gay Political Alliance
- Maine People's Alliance
- Maine People's Resource Center
- Maine Public Health Association
- Maine State AFL–CIO
- Maine State Employees Association—Service Employees International Union, Capitol Western Chapter
- Maine State Nurses Association
- Maine Women's Lobby
- The Mind's Eye Printing Company (Mid-Coast Maine)
- National Association of Social Workers Maine Chapter
- National Council of Jewish Women—Maine Chapter
- National Organization of Women—Maine Chapter
- People's Regional Opportunity Center

- Physicians for a National Health Program—Miriam Bergman Chapter
- Pine Tree Legal Attorneys Union
- Portland Coalition of the Psychiatrically Labeled (PCPL)
- Senior Spectrum
- Service Employees International Union Local 1989
- Southern Maine Agency on Aging
- Temporary Shelter of Presque Isle, Inc.
- The AIDS Project (TAP)
- Tyson & Kielty Realty (Central Maine)
- United Church of Christ
- United Methodist Church
- United Seniors in Action
- University of Maine Professional Staff Association
- We Who Care
- Western Area Agency on Aging
- Womens International League for Peace and Freedom—Maine

MARYLAND

- American College of Physicians, Maryland Chapter
- Cresaptown Senior Citizen Club (Cumberland)
- National Association of Retired Federal Employees, BCC Chapter 258 (Bethesda)
- National Capital Area Trade Union Retirees Club (Silver Spring)
- National Leadership Coalition for Health Care Reform—Maryland Coalition
- Senior Citizens Council of Allegany County (Cumberland)
- Senior Citizens Social Retirement Club of Allegany County (Cumberland)
- United Auto Workers Local 1338 (Havre De Grace)
- United Auto Workers Local 2202 (Elkton)

MASSACHUSETTS

- AARP Massachusetts VOTE
- American Association of Retired Persons, Chapter 3821 (Randolph)
- American College of Physicians, Massachusetts Chapter
- Burlington Council on Aging (Burlington)
- C/S Legal Aid (Cambridge)
- ERA Metro South Properties (Randolph)
- East Longmeadow Senior Citizens Center (East Longmeadow)
- Health Care for All (Boston)
- Knights of Pythias, Canton Chapter #6 (Sharon)
- Lexington Council on Aging (Lexington)
- Massachussetts Association of Older Americans (Boston)
- Massachussetts Senior Action (Arlington)
- National Leadership Coalition forealth Care Reform—Massachusetts Coalition
- Parent Advisory Council (Quincy)
- South Regional Senior Citizens (Randolph)

MICHIGAN

- American College of Physicians, Michigan Chapter
- American Speedy Printing Center (Saginaw)
- Flint Area United Auto Workers Retiree Council (Flint)
- Michigan Senior Advocates Council (Lansing)
- Michigan Senior Coalition (Lansing)
- Michigan Senior Power Day, Inc. (Lansing)
- Michigan Senior Power Day, Inc. (Lansing)
- Michigan State Council of Senior Citizens (Bloomfield Hills)
- Motor City Consumers Co-op, Inc. (Clinton Township)
- National Leadership Coalition for Health Care Reform—Michigan Coalition
- Region VII Area Agency on Aging (Bay City)
- Senior Senate of Western Wayne County (Dearborn)
- Share the Care Adult Day Care Center (Dearborn)
- United Auto Workers Local 600 Retiree Chapter (Dearborn)
- United Auto Workers Local 724 (Lansing)
- United Auto Workers Region 1A Healthcare Committee (Taylor)
- United Auto Workers Region 1A Retired Workers (Taylor)

MINNESOTA

- AARP Minnesota VOTE

- International Union of Electricians Local 1140 (Minneapolis)
- International Union of Electricians Local 1042 (St. Paul)
- International Union of Electricians Local 1144 (Minneapolis)
- International Union of Electricians Local 1060 (Duluth)

MISSISSIPPI

- American College of Physicians, Mississippi Chapter
- Jackson Gray Panthers, Inc. (Jackson)
- Mississippi P.W.A. Project, Inc. (Jackson)

MISSOURI

- American Association of Retired Persons, Chapter 3482 (Odessa)
- American College of Physicians, Missouri Chapter
- American Legion Post #354 (Brinktown)
- American Legion Post #354 (Brinktown)
- Coalition of Union Retirees, AFL–CIO (Kansas City)
- Gamma Epsilon Omega, Alpha Kappa Alpha Incorporated (Jefferson City)
- Meat Cutters Retirees (Saint Louis)
- Mid-Eastern Widowed Persons Support Group (St. Louis)
- Missouri Campaign for Women's Health (Kansas City)
- National Leadership Coalition for Health Care Reform—Missouri Coalition
- National Multiple Sclerosis—Michigan Chapter (Southfield)
- National Multiple Sclerosis Society—Michigan Chapter (Southfield)
- Odessa Senior Center (Odessa)
- Senior Citizen Health Fair Committee (Waynesville)
- Tela-Friend of Pulaski County (Crocker)

MONTANA

- AARP Montana VOTE
- Montana Council of Senior Citizens
- National Federation of Federal Employees (Billings)

NEBRASKA

- Amalgamated Gear Workers Local 1199
- AARP Nebraska VOTE
- Furniture Workers Local 1519 (Omaha)
- Nebraska Farmers Union

NEVADA

- AARP Nevada VOTE

NEW HAMPSHIRE

- AARP New Hampshire VOTE
- American Academy of Ambulatory Care Nursing (Pitman)
- American Association of Retired Persons Chapter 4704 (Phillipsburg)
- American College of Physicians, New Hampshire Chapter
- Community Council of Senior Citizens (Portsmouth)
- Golden Jet Set (Hewitt)
- Highland Park Area Chapter #04962 (Highland Park)
- Highland Seniors (West Milford)
- Monadnock Adult Care Center (Peterborough)
- National Leadership Coalition for Health Care Reform—New Hampshire Coalition
- New Hampshire Hand Therapy Center, Inc. (Bedford)
- New Hampshire Health Care Coalition (Canterbury)
- Over 50's Club—St. Philip & St. James Roman Catholic Church (Phillipsburg)
- Senior Focus (Peterborough)
- United Passaic County Seniors (Wayne)
- United Senior Alliance (East Windsor)
- Warren County Council of Senior Citizens, Inc. (Belvidere)
- West Milford American Association of Retired Persons (West Milford)

NEW JERSEY

- AARP New Jersey VOTE
- Caring Alternatives for the Aged (Atlantic City)
- Coalition of Union Retiree Organizations (New Brunswick)

- County of Passaic Senior Advisory Council (Wayne)
- Golden Age Circle (West Milford)
- Gray Panthers of Bergen County (Leonia)
- James Armstrong Trucking Co. (Newark)
- James C. White Manor Tenants Association (Newark)
- Mother-Daughter Limousine Service (Newark)
- National Leadership Coalition for Health Care Reform—New Jersey Coalition
- Saint Matthew Pentecostal Church (Penns Grove)

NEW YORK

- AARP New York VOTE
- ACCORD (Syracuse)
- American Association of Retired Persons Chapter, 3297 (Katonah)
- American Association of Retired Persons, Lynbrook Chapter #3565 (Lynbrook)
- American College of Physicians, New York Chapter
- American Military Retirees, Inc. (Plattsburgh)
- Bellevue Coalition to Save Our Health Care (New York)
- Bellevue Hospital Community Board (New York)
- BMS Health/Fitness Advocate (Harriman)
- Children's Health Fund (New York)
- Coalition of Senior Organizations of Central New York (E. Syracuse)
- Edward Spruck (Yorktown Heights)
- Father McKeon Senior Club (Valley Stream)
- I.L.G.W.U. Retirees (New York)
- Jewish Labor Committee (New York)
- Leonard Sandel Senior Centre (Rockville Centre)
- Midwood Senior Center (Brooklyn)
- Nassau Coalition for a National Health Plan (Great Neck)
- Nassau Senior Forum (Hempstead)
- Nassau Senior Forum (Rockville Centre)
- National Association of Retired Federal Employees, Chapter #200 (Syracuse)
- National Leadership Coalition for Health Care Reform—New York Coalition
- New York City/Long Island Labor-Religion Coalition (New York)
- New York Hotel & Motel Trades Council (New York)
- New York Hotel & Motel Trades Council Pensioners Society (New York)
- New York State Council of Senior Citizens (New York)
- New York State Nurses Association (Guilderland)
- New York State Retired Teachers Association (Albany)
- New York State United Teachers Election District 21 Retiree Council (Oakdale)
- New York State United Teachers Retirees of Central New York (Camellus)
- New York Statewide Senior Action Council (Albany)
- Northeastern Council of Senior Citizens
- Onondaga County (New York State) Retired Teachers Association (Dewitt)
- Retired Educators Chapter of the Syosset Teachers Association (Syosset)
- Retired Irvington Faculty Association (Tarrytown)
- Retiree Club of Local Union #3, I.B.E.W. (Valhalla)
- Retiree's Chapter, Plainview Congress of Teachers (Plainview)
- Retirees of Brentwood Schools (Oakdale)
- Seniors For Adequate Social Security (SASS) (New York)
- Shirley Senior Citizen Club (Shirley)
- Sisters of Mercy Justice Coordinating Team (Dobbs Ferry)
- Sub-Committee on Aging (CLC) (New York)
- Suffolk County Senior Citizen Council (Shirley)
- Suffolk Senior Council, Executive Committee (Shirley)
- United States Army Ranger Association, Inc. (New York)
- Westchester Community Opportunity Program, Inc. (Elmsford)
- Westchester Council of Senior Citizens
- Wives & Widows of Retirees of Local #3 I.B.E.W. (Valley Stream)

NORTH CAROLINA

- Charlotte Organizing Project (Charlotte)
- Christian Life Council of the Baptist State Convention (Cary)
- Green Level Seniors Club (Burlington)
- Green Line Media, Inc. (Asheville)
- Head In The Sand, Inc. (Raleigh)
- Mecklenburg Council of Senior Citizens (Charlotte)
- Morgantown Elites (Burlington)

- National Leadership Coalition for Health Care Reform—North Carolina Coalition
- North Carolina Consumers Council (Chapel Hill)
- North Carolina Equity (Raleigh)
- North Carolina Senior Citizens' Federation, Inc. (Henderson)
- Peace & Justice Committee, The Community Church of Chapel Hill (Chapel Hill)
- State Employees Association of North Carolina (Raleigh)

NORTH DAKOTA

- AARP North Dakota VOTE
- Powers Lake Senior Center (Powers Lake)
- Powers Lake Senior Citizens Club (Powers Lake)
- Progressive Coalition (Bismarck)

OHIO

- AFSCME, Local 0797—Legal Aid Society (Columbus)
- CWA Retired Members Club (Cleveland) (Cleveland)
- Cuyahoga County Black Women's Forum, Inc. (Cleveland)
- Ford Salary Retirees, Southwest Ohio (Cincinnati)
- Former Recipients of Medicaid for the Disabled (FRMD) (Defiance)
- Heritage Day Health Centers (Columbus)
- Hunger Network in Ohio (Columbus)
- MASK Amateurs to Stimulate Kreativity (MASK) (Defiance)
- National Leadership Coalition for Health Care Reform—Ohio Coalition
- Northeast Ohio Coalition for National Health Care (Cleveland)
- Ohio African American Independent Candidates' League (Cleveland)
- Pro Seniors, Incorporated (Cincinnati)
- Region 2–8 United Auto Workers Retiree Council (Toledo)
- Senior Advocate Group, Sycamore Senior Center (Blue Ash)
- United Auto Workers Local #12 Retiree Chapter (Toledo)
- United Auto Workers Local 674 (Fairfield)
- United Auto Workers Retirees Council Local 674 (Fairfield)

OKLAHOMA

- 4–D Truck Wash Out (Sayre)
- AARP Oklahoma VOTE
- Democratic Party-PCT 154 Oklahoma County (Oklahoma City)
- East Oklahoma County P.O.P.I. (Spencer)
- Fowler Sales (Sweetwater)
- Fred Factory Tenants Association (Spencer)
- Heinsohn Dairies (Sayre)
- Hispanic Action in Education, Inc. (Tulsa)
- Meridian Parakeet Sales (Sweetwater)
- Oklahoma County Democratic Party Volunteers (Oklahoma City)
- Oklahoma Health Care Project (Oklahoma City)
- Volunteers Democratic Party, Pct. 24 Oklahoma County (Del City)

OREGON

- National Leadership Coalition for Health Care Reform—Oregon Coalition
- Oregon Federation of Teachers, Education & Health Professionals (Portland)
- Oregon Health Action Campaign (Salem)
- Oregon Public Employees Union, SEIU Local 503 (Salem)
- Oregon Retired Educators Unit 34 (Tigard)

PENNSLYVANIA

- American Association of Retired Persons, Gem City Chapter 3434 (Erie)
- American Association of Retired Persons, Media Area Chapter #1000 (Erwyn)
- Childrens Aid society of Montgomery County (Norristown)
- Crawford County Citizen Advocacy Council, Inc. (Meadville)
- Crawford County Gray Panthers (Meadville)
- Happy Joe's (Danville)
- Lehigh Valley Northeast United Auto Workers—CAP Council (Allentown)
- National Leadership Coalition for Health Care Reform—Pennsylvania Coalition
- Older Women's League—Buck's County (Langhorne)
- Pennsylvania State Council of Senior Citizens (Harrisburg)
- Philadelphia Tribune (Philadelphia)
- Senior Citizen Group, Saint Mary's Church (Erie)

- Sholom Alelchem Club (Bala Cynwyd)
- United Auto Workers Local 1193 (General Dynamics) (Allentown)
- United Auto Workers Local 1238 (Champion Spark Plugs Retirees) (Allentown)
- United Auto Workers Local 1242 McKinney Manufacturing) (Allentown)
- United Auto Workers Local 1561 (Amalgamated) (Allentown)
- United Auto Workers Local 644 (ITT) (Allentown)
- United Auto Workers Local 677 (Mack Trucks) (Allentown)
- United Auto Workers, Local 677 (Amerigold Unit) (Allentown)
- United Rubber Workers Retirees, Local 61 (Erie)
- Wood River Village (Bensalem)

RHODE ISLAND

- AARP Rhode Island VOTE
- Amalgamated Clothing and Textile Workers Union Local 1941T (Westerly)
- DAWN for Children
- District 1199 New England Health Care Employees Union (Providence)
- Greater Woonsocket Labor Council (Woonsocket)
- International Brotherhood of Electrical Workers Local 99 Retiree Club
- International Brotherhood of Teamsters Local 64
- International Union of Electricians Local 283 (Warwick)
- Local 28 Plumbers Retiree Association
- National Association of Retired and Veteran Railway Employees, Unit #3 (Providence)
- National Education Association of Rhode Island
- New England Coalition of Teamsters Retiree Chapters and Teamster Local 251 Retirees
- Rhode Island Alliance of Social Workers, Service Employees International Union Local 580
- Rhode Island Academy of Family Physicians
- Rhode Island Coalition of Labor Union Women
- Rhode Island Council of Senior Citizens
- Rhode Island Federation of Retired Teachers Local 8037
- Rhode Island State Council of Senior Citizens (Providence)
- Service Employees International Union Local 134
- Steamfitters Local 476 Retirees Group
- United Food and Commercial Workers Local 328 Retirees Club
- Westerly Hospital Federation of Nurses and Health Professionals, Local 5075 (Westerly)

SOUTH DAKOTA

- Aberdeen Area Tribal Chairmen's Health Board
- Alzheimer's Association Siouxland
- AARP South Dakota VOTE
- American Federation of State, County and Municipal Employees Council 59 (Sioux Falls)
- American Federation of State, County and Municipal Employees (Huron)
- Local 304A (Sioux Falls)
- South Dakota Association of Community Based Services
- South Dakota Association of Nurse Anesthetists
- South Dakota Education Association
- South Dakota Farmers Union (Huron)
- South Dakota Hospital Association

TENNESSEE

- AARP Tennessee VOTE
- American College of Physicians, Tennessee Chapter
- Emmanuel Temple Church of God in Christ (Memphis)
- Indiana HIV Network (Indianapolis)
- League of Women Voters/Chattanooga-Hamilton County (Chattanooga)
- National Council of Senior Citizens—Tennessee (Bristol)
- North Nashville Organization for Community Improvement (Nashville)
- Solutions to Issues of Concern to Knoxvillians (SICK) (Knoxville)
- Tennessee National Council of Senior Citizens (Bristol)
- Tennessee State Council of Senior Citizens (Knoxville)
- Theta Eta Omega Chapter Alpha Kappa Alpha Sorority (Milan)

TEXAS

- AARP Texas VOTE
- ACCESS, Advice & Confidential Consultations by An Expert on Social Security (San Antonio)
- ACORN Houston (Houston)
- Allied Educational Workers (Austin)

ORGANIZATIONS ENDORSING EMPLOYER-BASED INSURANCE

- ACME Steel Company
- AIDS Action Council
- Amalgamated Clothing and Textile Workers Union
- Ambulatory Pediatric Association
- American Academy of Pediatrics
- American Association for Partial Hospitalization
- American Association of Pastoral Counselors
- American Association of Retired Persons
- American Association of University Professors
- American Association on Mental Retardation
- American College of Nurse-Midwives
- American College of Obstetricians and Gynecologists
- American College of Physicians
- American Counseling Association
- American Federation of Government Employees
- American Federation of Teachers
- American Federation of State, County, Municipal Employees
- American Federation of State, County, Municipal Employees Retiree Program
- American Geriatrics Society
- American Hospital Association
- American Lung Association
- American Medical Student Association
- American Medical Women's Association
- American Nurses Association
- American Postal Workers Union, AFL–CIO
- American Psychological Association
- American Thoracic Society
- Amputee Coalition of America
- Asociacion Nacional Pro Personas Mayores
- Association for Gerontology in Higher Education
- Association of Community Action Agencies
- Association of Community Organizations for Reform Now (ACORN)
- Association of Schools and Public Health
- Association of Letter Carriers, AFL–CIO
- Association of Maternal and Child Health Program
- Bakery, confectionery & Tobacco Workers International Union
- Bazelon Center for Mental Health Law
- Bethlehem Steel
- Catholic Health Association of the United States
- Center for Community Change
- Center for Science in the Public Interest
- Center for Women Policy Studies
- Center on Disability and Health
- Ceridian Association
- Children's Defense Fund
- Chrysler Corporation
- Coalition on Human Needs
- Consumers Union
- Eldercare America, Inc.
- Epilepsy Foundation of America
- Families USA
- Health Care for the Homeless Project, Inc.
- Independent Federation of Flight Attendants
- International Association of Psychosocial Rehabilitation Services
- International Association of Fire Fighters
- International Ladies' Garment Workers' Union
- International Union, UAW
- International Union of Bricklayers and Allied Craftsmen

- International Union of Electronic, Electrical, Salaried, Machine and Furniture Workers, AFL–CIO (IUE)
- Jesuit Social Ministries, National Office
- Laborers International Union
- League of Women Voters of the U.S.
- Legal Action Center
- National Asian Pacific Center on Aging
- National Association of Alcoholism and Drug Abuse Counselors
- National Association of Area Agencies on Aging
- National Association of Child Advocates
- National Association of Children's Hospitals and Related National Institutions
- National Association of Community Action Agencies
- National Association of Community Health Centers
- National Association of Homes and Services for Children
- National Association of Professional Geriatric Care Managers
- National Association of Public Hospitals
- National Association of Social Workers
- National Caucus and Center on Black Aged
- National Community Mental Healthcare Council
- National Consumers League
- National Council of Senior Citizens
- National Education Association
- National Federation of Societies for Clinical Social Work
- National Hispanic Council on Aging
- National Leadership Coalition for Health Care Reform*
- National Mental Health Association
- National Multiple Sclerosis Society
- National Organization for Rare Disorders (NORD)
- National Urban Coalition
- National Parent Network on Disabilities
- National Women's Health Network
- National Women Law Center
- NETWORK: A National Catholic Social Justice Lobby
- New Ways to Work
- Older Women's League
- Project Vote Fund
- Rohm & Haas Company
- Rural Advancement Fund
- Save Our Security
- Service Employees International Union
- Society of Adolescent Medicine
- Southern California Edison Company
- The American State of the Art Prosthetic
- The Arc
- The Children's Foundation
- The Federation of Families for Children's Mental Health
- The National Council on the Aging, Inc.
- United Auto Workers
- United Food and Commercial Workers Union
- United Auto Workers Retired and Older Workers Department
- United Mine Workers of America
- United Steelworkers
- Washington Ethical Action Office/AEU
- Women's Legal Defense Fund
- World Association for Psychosocial Rehabilitation—U.S. Branch
- YWCA ofthe U.S.A.

*The National Leadership Coalition for Health Care Reform is made up of over 100 organizational members—corporations, industrial companies, unions, consumer groups and health care providers.

MEMBERS OF THE NATIONAL LEADERSHIP COALITION FOR HEALTH CARE REFORM

Acme Steel Company
Amalgamated Clothing & Textile Workers Union, AFL–CIO
American Academy of Family Physicians
American Academy of Pediatrics
American Association of Retired Persons
American Automobile Manufacturers' Association

American College of Physicians
American Federation of Teachers, AFL–CIO
American Iron & Steel Institute
American Nurses Association, Inc.
American Physical Therapy Association
American Psychological Association
Association of Academic Health Centers
Association of Minority Health Professional Schools
B.C. Enterprises
Bank South Corporation
Bannon Research
Bethlehem Steel Corporation
Blue Diamond Growers
Brown & Cole Stores
Burlington Coat Factory
Caterpillar Inc.
Ceridian Corporation
Christian Children's Fund
Chrysler Corporation
Cold Finished Steel Bar Institute
Communication Workers of America
CoreStates Financial Corp.
Del Monte Foods
Drummond Company Inc.
Families USA Foundation
Filter Materials
First Interstate Bancorp
Ford Motor Company
General Motors Corporation
Georgia-Pacific Corporation
Giant Food Inc.
The Great Atlantic & Pacific Tea Company, Inc.
Gross Electric Inc.
The Heights Group
H.J. Heinz Co.
Hunt-Wesson Inc.
Inland Steel Company
INSIGHT Treatment Services, Inc.
International Brotherhood of Electrical Workers
International Multifoods
International Union of Bricklayers and Allied Craftsmen
James River Corporation
Johnstown Corporation
Keebler Company
Keller Glass Company
Lincoln Telephone & Telegraph Co.
Lockheed Corporation
LTV Steel Company
Lukens Inc.
Maytag and Admiral Products
National Associations of Childbearing Centers
National Association of State Boards of Education
National Easter Seal Society
National Education Association
National Steel Corporation
Norwest Corporation
Olympia West Plaza, Inc.
Pacific Gas & Electric
PAR Associates
Pella Corporation
Preferred Benefits
R.R. Donnelley & Sons Co.
Ralphs Grocery Company
Regis Corporation
Rohm & Haas Company
Safeway Inc.
Sara Lee Corporation
Scott Paper Co.

Service Employees International Union, AFL–CIO
Sokolov Strategic Alliance
Southern California Edison Company
Strategic Marketing Information, Inc.
Texas Heart Institute
Time Warner Inc.
United Air Lines, Inc.
United Food and Commercial Workers International Union, AFL–CIO
United Paperworkers International Union, AFL–CIO
United States Catholic Conference
United Steelworkers of America, AFL–CIO
U.S. Bancorp
The Vons Companies, Inc.
Westinghouse Electric Corporation
Wheat, First Securities, Inc.
Wheeling-Pittsburgh Steel Corp.
The Whitman Group
Wisconsin Public Service Corporation
Xerox Corporation

AA Marthedal Company—Neil Marthedal
Ames Florist & Landscaping—Otha Council
Antelope Printers—Walter Staton
William Sweitzer, Attorney
Susan Koenig-Krammer, Attorney
Jackie Barfield, Attorney
Thomas S. Hall, Attorney
Auerbach Associates—Judy Auerbach
Barr Health Mart—Curt Barr
Blount, Parrish and Rotton, Inc.—C. Derek Parish
Blue Ridge Beverage Company—Robert Archer
Brown & Statza, PC—Daniel Brown
Buck Creek Nursery—Bob West
CBW Consultants—Connie Wilder
Caner's Choice—Jerry Proulx
Carney & Brothers, Ltd.—Demetrius Carney
Carrabean American Baking Company—Corrin McCalla
Case/Paluch & Associates—Dennis & Kelly Paluch
Charlottesville Free Clinic—Betty Newell
Classic Travel Consultants—Marjorie Olsen
Cocoline Chocolate Company—Julius Walls
Corporation for Enterprise Development—Robert Friedman
Demon Dogs Restaurant—Peter Shivarelli
DiCarlo Construction Company—Mark DiCarlo
Due West—Mark Sturdivant
Dumb Guys Party Supplies—Charles Thomas
East/West Company—Paul Park
Educational Communications—Paul Krouse
Erwin Capital, Inc.—Mark Erwin
Falcon Midwest—Kamaran Kahn
Financial Innovations—Mark Weiner
Freel Placement Inc.—Earl Tate
Garden State Industrial Electronics—June S. Fischer
Gaylord's Originals—Benjamin & Sue King
Glendower Vineyards—Chris Hill
Gordon & Pikarski—John Pikarski
Greenbriar Development—Dan O'Neal
Hardcastle Commucation—Kirk Hardcastle
Hellring, Linderman, Goldstein & Segal—Robert Raymar
IC Thomasson Associates, Inc.—Joseph J. Wimberly
IP Container Corporation—William Leeds
Independence Resource Center, Inc.—Tom Vandever
Integrated Business Solutions, Inc.—Audrey Rice Oliver
JTO Properties—J. Taylor DeWeese
Jefferson Area Agency Board on Aging—Gordon Walker
John Wang Associates—John Wang
Kistler Investment Company—William Kistler

LaBreque Window and Floor Cleaning—Frank Barrett
Langston Associates, Inc.—Michael Langston
Leona's Pizzaria—Toia Family
Lisboa Associates—Elizabeth Lisboa-Farrow
Marilyn Barrett, Attorney
Marks & Salley, Inc.—E. Carol Stalley
Massachusetts Envelope Company—Steve Grossman
Metropolitan Energy Center—Peter Dreyfus
Missouri River Tile Company—John Fahey
Montgomery Cablevision, Inc.—William Blount
Monticello Area Community Action Agency—James Murray
Morrison Associates—Anne Morrison
Mountain Cove Vineyards—Al Weed
New Times Publisher—Steve Glorioso
New York Bagel Shop—John Napp
Northwest Erection Services—Dan Hill
Oxford Development Company—David M. Matter
Papercraft Printing and Design, Inc.—Virginia Daugherty
Parris-Kirwan Associates, Inc.—Lawrence J. Kirwan
Patricia Bario Associates—Patricia Bario
Pharmacy Associates of Kennebridge, Inc.—R. Michael Berryman
Preferred Settlement Co.—Anna Lew
Prochaska & Associates—Donald Prochaska
Promotion Marketing of America, Inc.—Brian Brown
Queens Lumber, Inc.—Jimmy Meng
Raani Corp.—Rasheed Chaundry
Rejuvination Inc.—Jim Kelly
Shelter Associates, Ltd.—Bruce Gordon
Sigma Broadcasting—Robin Hernreich
Sistemas Corp.—Deborah Aguiar-Velez
Sloan Marketing—John Sloan
Soreal Design—Larry Sells
Stammer, McKnight, Barnum & Bailey—Donald Pogoloff
The Mayer Company—Rob Mayer
The Nook and Terry's Restaurant—Theresa D. Shotwell
Timberlake's Drug Store—John Plantz
Tolan O'Neal Transportation & Logistics—Daniel O'Neal
Tom Jones Drugs—Tom Jones
Toncee, Inc.—Tony Davidow
Trans-Global Transportation—Marilyn Knox
William O'Donaghue, Esq.—William O'Donaghue
Woods Mill Woodworks—Carter Smith
Worksourse Enterprises—Ron Enders
Zenon Pharmacy—Terry Zenon
America's First Choice—Richard Hughes
Juice Co.—Clete & Ann Hamilton
Linda Moreland & Associates—Linda Moreland
Cafe Eclipse—Donald Jack
Genevieve M. Bolin—Genevieve Bolin
Interior Surroundings—Minh Lam
J&D Enterprises—David Lewington
Jeri Strunz—Jeri Strunz
La Guma Trends—Dean Wise
Leo Harmel Co.—Lisa McCarthy
Mission Valley Cabinet—Judith A. Young
Nails by Kristy—Jana kristine Brose
Postal Place—Robert Walters
Rainbow Flowers—Marie Thomas
Ray's Tennis—Lynn Ray
The George Glenner Alzheimer's Family Centers—Joy Glenner
Setili Investments, Inc.—Michael Setili
The Flower Shack—Alan Chenault
Ulce Hair, Nail and Skin Salon—Debra Dauber
Uptown Image—Yvonne Ringnell
Uptown Pharmacy—Steve Malzin
WECO Supply Company—John Sorenson
Why USA HTC Reality—Sharon Eavernizzi
Mid-State Medical Claims and Billing Service—Ernesto Vera

Lew and Patnaude Inc.—William E. Patnaude
Cal State Muffler & Brake—Frank Cortez
S&D Sales—Stewart Weil
Louis Frame Wheel and Brake—John Michael Wenzel
Pharm-Kee—David Wilcox
National Address & Mailing Company—David Shapiro
Pro Printing—Margaret Rondeau
Union Friendly Systems. Inc.—Richard Van Elgort
Uribe Printing—Carlos Uribe
Malcolm Tucker & Associates—MC Tucker
San Diego Realtor—Patrick Alexander
PIP Printer—Jay F. Levine
Mainstream Magazine—Cindy Jones
Central Construction—James Kammerer
Lorena Productions—Leslie Barnard-Thomas
Escondido Fire Equipment Co.—Stephen E. Siptroth
Pasta Shop—Sarah Wilson
Henderson & Levy—Hank Levy
KDIA Radio—Elihou Harris
Cactus Taqueria—Gustauo Houghton
Rockridge Fishmarket—Allen Kuehn
Market Hall Produce—Tony Wilson
Wilson Associates—Peter Wilson
Rockridge Kids—Nishan Shepard
Bizzarre Bazar Inc.—Liz Ibarra/Sandra Feinberg
Travel Consultant—Barbara Houston
Cody's Bookstore—Andy Ross
The Art Club—Janette MackinLay
Ultimate Grounds—Richard Campbell
Glenview Florist—Douglas K. Brown
Brock's Flower Shop—Terry Kintz
Cafe of the Bay—Nader Davarri
Fashion Center—Connie Chang
Oaks Motel—Jay Patel
Holiday Motel—Kisnor Patel
The Food Mill—Kirk Watkins
Bolerium Books—Mike Pincus
Fox Plaza Deli—Emil Yarnin
Just Desserts—Eliott Hoffman
Stein and Smith—David Stein
Superfresh Foods—Sean Kelly
Waldick Stationary—Cliff Waldick
Royal Cleaners—Amy Ho
Castagnola's Restaurant—Andrew R. Lolli
System Industries—Lisa Paul
Burrito Brothers—Eric Sklar
Elston Metal—Louis Slotnick
Maxi Store for Men—Herbert Raffield
American Waste & Wiper Company—Irving Levin
Chicago Furniture—Philip Pikofsky
Paul Baker Graphics—Paul Baker
Kel-Kraft, Inc.—Ken Kelly
Farmer—Alan Mertin
Blish-Mize Co.—John Mize
Farmer—Grey Stephens
Capital Building Services—Alan Majeroni
Farmer—David Vogelsberg
Farmer—Edward Reznicek
The Toy Store Downtown—Margaret Guffy
Farmer—RD Busch
Independence, Inc.—Ann Brandon
Farmer—Paul Krumm
City Pawn Shop—Murray Horowitz
Union Inernational Systems—Mike Roberts
Harbor Software—Ron Harris
Conservation Services Group—Steve Cowell
Environmental Futures, Inc.—Steven Rothenstein
Bagley Acquisition—Anthony Pieroni

Cambridge North Nursing Center—Barbara Iseppi
Continental Window Cleaning—Fran Adler
Total Wiring Sustems—Andy Long
Great Lakes Plastics—Betsy Kelly
New Detroit Nursing Center—Thelma Scott
Pembrook Nursing Center—Martha Shand
Elmwood Geriatric Village—Gloria Shand
Manistee County Medical Care Facility—David Vaughn
City & County Convalescent Home—Joyce Novak
Three Rivers Area Hospital—Brenda Smalley
Wayne Living Centers—Lesley Skog
Quinn Cohen & Associates—Thomas Quinn
Older Adult Resources and Services—Leah Weiss
Communications Services—Libby Post
Anschuetz Christidis & Lauster—Chuck Lauster
Abraham Joselow, PC—Abraham Joselow
Softset Design, Inc.—Ashley Louis
L&L Construction, Inc.—David Lee
Bahar Associates—Judy Ennes
TJR Construction Co.
Tom Huth, Architect—Tom Huth
AW Hochberg, Inc.—Alan Hochberg
The Edelman Partnership—Judith Edelman
Architecture & Furniture—John Petrarca
Leers, Weinzapfel Associations—Andrea Leers
Whitney Cox Photography—Whitney Cox
Gary Gordon Architectural Lighting—Gary Gordon
Giesecke/Rhodes Architects—Craig Rhodes
Micro Decision Systems—Ronald Ebner
The Mediterrainean Shop—Carola Giannini
Kresler Borg Florman Construction Company—John V. Crisco
Heisel Associationes Architects—Ralph Heisel
Yorke Construction Company—Robert Goldberg
American Aviation International Corporation—Elaine Stone
Medical Sea Pak Co.—Ethan Welch
Hi-Mark Corporation—Stephen Hightower
Gross Electric—Richard Gross
White Dog Cafe—Judith Ann Wicks
Pied Piper Flower Shop—Kathleen Piper
Nancy Niehouse, Realtor—Nancy Niehouse
Fabric Magic—Pam Laclaire
Vermont Teddy Bear Company—Spence Putnam
Unilink—Roger Amadon
Hall Manufacturing—Betty Hall
McCarthy Flowers—Brian McCarthy
The Potomac Consulting Group—Chris Moss
American Aviation International Company—Elaine Stone
Black Issues in Higher Education—Bill Cox and Frank Matthews
Global Resources Group—Donn Bleau
Carter's Men Clothing—Michael Carter
Word Journey Travel Store—Angie Brenner
North Oak Pharmacy—Sharlea Leatherwood
Marwas Steel Company—Marvin Waspe
Richard Sibley Associates, Inc.—Richard Sibley

Senator KEMPTHORNE. OK. I find it very interesting that this is the administration's number one domestic issue, health care. It makes up one-seventh of our economy. Yet, the business entities that we have discussed here, nobody is endorsing this. I would ask why is that.

Mr. BOWLES. I think, clearly, that I have not met a single small business that likes the "M" word. A mandate is something that is an anathema to a small business. There is also a great deal of misinformation in the marketplace. What we have tried to do is have people look through the mandate and look at the reality, look at

the facts. Look at what the real coverage is, look what the real cost is, and look at the plan as it is and then make your judgment.

What I can tell you is that the vast majority of those small businesses that currently offer insurance today will see better coverage at lower cost. One of the reasons we sent a form to every single Congressman and every single Senator was so that you could calculate what your cost would be under the Health Security Act. You could compare what your current cost is now to what it would be under the Health Security Act so that people could actually do arithmetic and know what it is. We could then talk about facts rather than just a lot of what I believe has been some mis-information in the marketplace.

Senator KEMPTHORNE. OK. I, too, in my opening comments gave you a great deal of praise for what is going on in the Small Business Administration. I appreciate it. We can point to examples of where you are streamlining the system. Your "Low Doc/No Doc." Low documents or no documents. You are making progress. Last week we had a hearing here and Cassandra Pulley and Berkie Kulik told us about the Disaster Loan Program and held up what was four sheets of paper that has been the form, and then showed us how many significant sections have been blacked out that you do not require now, so that you can get that help immediately to those disaster areas.

That is why it surprises me that you endorse employer mandates. And I would ask—you stated that you have talked to hundreds and perhaps thousands of small business people. Did you hear the same message from them that I have? And that is that employer mandates will cause many of them to close their doors, and it will cost us a loss of jobs.

Mr. BOWLES. No, sir. Let me tell you what I did hear. I heard small businesses talk about their health care costs growing at 20 to 50 percent a year. I heard them talk about paying 35 percent more for the same health insurance that big businesses buy. I heard them talking about being able to buy today only a bare bones plan if they could buy anything, if they could afford it.

I heard them talk about occupational redlining. I heard them talking about exclusions for pre-existing conditions. I heard the self-employed talk about only having a 25 percent deduction for health care as opposed to 100 percent. I heard them talking about nightmares as they tried to deal with insurance companies and negotiate any kind of reasonable cost.

I heard those that were members of health care alliances or health care buying groups talk about the real benefit, how it had reduced their cost and enabled them finally to offer some insurance—not as good insurance as they would like, but some insurance.

I know that small businesses want to—that very survey you just talked about—provide health care to their employees. But today, they cannot afford to do it because it costs too much. What they can buy just is not worth a hoot, they know if they can afford it today they will not be able to afford it tomorrow because it will grow at 20 to 40 percent a year.

So what we tried to do was to develop a health care plan that would address the chronic needs, the real crisis, that is facing the

small business community. As I said before you arrived, we in the small business community have tried everything we can to hold down the cost of health care. We have tried switching programs, we have tried managed care, we have tried self-insurance, we have tried reducing benefits, passing along a bigger share of the cost to our employees. Nothing helps. The cost of health care continues to rise at an extraordinary rate, and the smaller you are the more disproportionate the cost is.

Senator KEMPTHORNE. I appreciate that. But I have heard from many, many of the small business people that do tell me that this will cost jobs, that they will close their doors. And really, it goes back to, in my opening comments, the question—and perhaps you have addressed this, and I am sorry I had to leave. I did a teleconference with small business folks back home that had been set up before this hearing. But is it better for business that cannot provide health insurance to close its doors, or is it better for business to stay open and provide jobs?

Mr. BOWLES. What you have given me is a no-choice, and I do not believe that is the choice. I believe what we are giving small business is the opportunity to provide real insurance at a reasonable cost. As I said, if you have minimum wage employees who are making let's say around $10,000 a year, then your costs are going to be, under this plan, less than $1 a day. That is something that small businesses can afford. If you look at what most small businesses are paying today that provide health care, they are going to have a real savings. That is savings that they can turn into new jobs and new opportunities, that they can turn into capital expenditures to make their companies more productive in this global economy we have.

I think it can be a real benefit. The CBO study itself, the independent study, says that it is not going to hurt small business. It is right in there.

Senator KEMPTHORNE. Another question. You say on page 8 that the President's plan will give small business what it needs by offering them, and I quote, "the general guaranty that no firm with fewer than 5,000 employees will pay more than 7.9 percent of payroll for health benefits."

I am struck by the term "general guaranty." Are we to assume then that means there is not an absolute guaranty that firms will not pay more than 7.9 percent of payroll?

Mr. BOWLES. Senator, I do not know any way that a firm could pay more than 7.9 percent. There may be some technical way it can happen, but I personally do not know of any way it can happen.

Senator KEMPTHORNE. OK. Final question, then. And I am going to leave the topic for a moment, but this deals with a specific situation in Idaho. I have been working with your office with Berkie Kulik, who has been doing a great job on this. But, as you may know, we have had a disaster in Lewiston, Idaho where a fire has taken out a number of businesses. And I believe the needs meet all of the requirements for these disaster loans.

At this point, it is my understanding it simply requires your approval so that we can go forward with those loans. Can you tell me, do we have your certification that we can now move forward with these disaster loans to Lewiston?

Mr. BOWLES. I expect the recommendation is waiting for me when I get back. I will look at it, and if it is appropriate I will sign it.

Senator KEMPTHORNE. OK. I appreciate that very much.

Mr. Chairman, thank you.

The CHAIRMAN. Thank you, Senator Kempthorne.

Senator Bennett.

Senator BENNETT. Thank you, Mr. Chairman. I apologize for having to leave. I was testifying before the Rules Committee.

I join my colleague from Idaho, Mr. Bowles, in saluting the job you are doing as the head of the SBA and repeat what I have said previously. I think you are one of the better appointments of this administration, and I think you are genuinely concerned about small business.

I recognize also the dynamics of serving in an administration, and that nothing that we could say or do could force you to publicly endorse a position different from the President's. If you did that, you would resign, and I do not want you to resign. And so I realize this is something of an exercise that we are going through here rather than what happens in many hearings.

And I do not say that in a pejorative sense. I have sat at a witness table representing an administration, and I understand the constraints that every administration witness is under. So I am extending a little bit of sympathy for you for the kind of treatment that you have had to undergo here.

However, let me continue it, because that is the role that I have. [Laughter.]

Mr. BOWLES. I welcome it.

Senator BENNETT. Secretary Reich talked about the nice things in this administration, and he used a word that I think was an inappropriate word when he said this bill will "allow" small business to form co-ops to get the advantage of large purchasing power. This bill will not allow; this bill will require. This bill will order. This bill will demand. This bill will send to jail if you do not. This uses the police power of the State to force small business into mandatory alliances that they may not want to join.

In my opening statement I talked about R.F. Bennett Associates and indicated, in that circumstance—the nuance was obviously lost—that we paid less as a small business than the big business that we had been in before, because the employer in the big business had made a choice as to what kind of a plan all the employees should have. And when we were on the COBRA circumstance, we had no choice but to ratify that choice with our dollars.

Now, I cannot complain bitterly about the wisdom of that choice because I was the CEO of the company that made the choice. I made the choice on the basis of what I thought was best for all of the employees.

When I went out into my own firm and took my secretary with me, we found that we could find the coverage that we needed without all of the frills that I had previously decided the other employees needed for less money than we were paying on COBRA. And, furthermore, we got coverage that took care of my secretary when she developed a brain tumor, that handled the pre-existing condi-

tion circumstance. It took us a while; it took us a number of agents to look for it. We said, this is what we need, but we found it.

I am not sure, if I were still running that business, I would be real thrilled about giving up that coverage and moving to a circumstance that says you have no choice but to get rid of this coverage that you have carefully put in place. You now have to go into this mandatory alliance, a monopoly with regulatory powers, that will determine what kind of coverage you have.

My secretary is struggling to recover from her brain tumor. She is still covered by that insurance. She probably would be covered under the new plan, but the point I am making is, it is not automatic that all of the blessings and benefits that have been described here will happen. Nor is it automatic that the problem is as terrible as is described here.

Now, you said you have been out and talked to small businesses and you heard them talk about the nightmares of the present system. You said you heard them talk about alliances, the benefits of alliances. If I may, you did not hear the word "alliances"——

Mr. BOWLES. No. Buying groups, I said.

Senator BENNETT. Buying groups and purchasing cooperatives. Because "alliances" did not exist as a word until after the focus groups indicated that would make a better sell for the President's plan than the word "hippic."

Mr. BOWLES. I do not know who made up those focus groups. If I could have picked one word, I would not have picked "alliance." That would have been the last word I would have picked.

Senator BENNETT. Well, they decided in the focus group, as they say, that would sell better than "hippic" which was the word going in.

I agree completely with the benefit of purchasing cooperatives, which is why I am a co-sponsor of Senator Chafee's bill that creates those. But they are voluntary. You do not have to join them. The police power of the State is not marshaled to put you in one of those programs. And I think that is one of the reasons why the small business people are upset. Not because they hate the "M" word. I think they are genuinely afraid of the impact of a statewide monopoly controlling all of this when that monopoly has regulatory powers and will put out of existence all alternative insurance other than that which comes from the very large companies.

But let us get back to the point that Senator Mack was making, which is one of my theme songs, and I raise this because I want you to think about it. You are a thoughtful fellow. You have the presence here, and you are doing the very best you can to represent small business.

I tried to summarize it this way. A series of statements. Statement No. 1: The present system is a mess. You would agree with that?

Mr. BOWLES. Absolutely.

Senator BENNETT. Absolutely. I would agree to that. The present system needs to be changed. No. 2: The present system is employer based.

Mr. BOWLES. I agree.

Senator BENNETT. You agree with that.

No. 3, your statement here: Employer base is the core of our reform system. What is wrong with this picture?

Mr. BOWLES. I am sorry, I do not follow your thought, and I am a thoughtful fellow.

Senator BENNETT. OK. I will be more direct.

I believe that the employer-based system of distributing health care and health insurance in this country is at the root of the mess of the present system, and that a reform that is built upon the employer-based system will perpetuate the difficulties of the present system. I believe that if we pass the President's program with that employer base at the core of the entire structure, we will be back here within 5 years voting for Senator Wellstone's bill to push this whole mess off the table and go to a single-payer system because it is the only thing that makes any kind of administrative sense compared to an employer-based system.

Indeed, if I were forced with a choice right now, I would vote for single payer before I would vote for the administration's program because at least it has the purity of being straightforward and direct as to what it is up to.

I go back to the example I just gave you and the example that I heard you giving back to this committee. Who makes the decision as to what kind of coverage I get? My employer does. Who owns the policy right now? My employer does. Who determines how much of that I pay and how much he pays? My employer does. Who makes the mistake, therefore, if I do not get the coverage that I want? My employer does. And we are building this whole reform on an employer-based system that perpetuates that.

Mr. BOWLES. But I do not necessarily believe that A equals B equals C as you described it.

Senator BENNETT. Well, I firmly believe that the reason we do not get market forces—one of the reasons we do not get market forces working in this issue the way they work in many others is because the consumer never deals with the provider. What kind of a market influence can you have where the consumer never deals with the seller? The employer is not the consumer but the employer is the one who deals with the seller, the employer is the one who makes the decisions.

Now, there might have been justification for an employer-based system at the beginning when it came about back in the 1940's, and Senator Mack is exactly correct. We got into this mess because the Government tried one of its periodic attempts to repeal the law of supply and demand. If I could engrave anything in marble over these doors that we walk through it would be: You cannot repeal the law of supply and demand. I think Congress needs to understand that, but we keep trying.

We put wage and price controls as an attempt to control the problems of inflation and distortion in the second world war, and American business people were inventive enough to get around them. And one of the ways they got around them was to start to give wage increases in the form of health insurance. And we have been stuck with it ever since.

Now, that might have made some sense when, in the 1940's, a young person coming out of school went to work for Sears Roebuck and stayed at Sears Roebuck until he got his gold watch. So they

go to work for one employer, they stay with that employer all their lives. And the employer provides the health care and so that is OK. And the problem is just the problem that I have described. That is, if the employer does not give me what I need, I am out and injured. I am at the mercy of the employer's decision.

What you are doing with this system is substituting the mandatory alliance for the employer to make those kinds of judgments. And I am still out and injured if I want anything different.

But in today's world, the young person coming out of college is going to change jobs, on the average, 7 times before he or she retires, and that number is going up. And if that is the average, that means half the folks change jobs more than that. And to say, your insurance is tied to your employer when you change jobs 7 times in your career means, under the present system—this is what I mean. The present system is a mess. The present system is employer based. Statement No. 2 is a major contributor to Statement No. 1.

Under the present system, that means 7 times I am exposed to pre-existing conditions; 7 times I have to qualify all over again; 7 times there is a waiting period; 7 times I may not get the coverage I want. I go from one employer to the other and I am forced to change, as I have now gone through. I had the policy I wanted at R.F. Bennett and Associates. Now I have the policy the Federal Government has decided I have to have. And they say, "Oh, you have choice, Senator. You can take either A, B or C." I say, "I do not want A, B or C. I want this kind of policy." They say, "You cannot get it, at least not through your employer."

At least in the present system, I could go out and buy it if I want it. Under this plan that is being proposed by the administration, I would not have that option. I could not go out and buy it. Indeed, as I understand it, if I were to talk to a doctor and say, "Doctor, I have this kind of a problem and I want you to treat me," and the doctor agreed to treat me outside the system, he and I could both go to jail for 15 years if I paid him. It would be described as a bribe.

Mr. BOWLES. But in the current system, your secretary does not get any choice.

Senator BENNETT. That is correct, unless she wants to spend her own money.

Mr. BOWLES. Right. Just like you could spend your own money in the example you just used.

Senator BENNETT. I could spend my own money. And I am saying you are taking even that choice away from us. You are taking even the choice, even the ability to spend our own money and buy what we want away from us with these monopolies that are called alliances.

So think about this whole issue of the employer-based system. If we are talking about structural reform—you obviously cannot respond here. You are under a variety of strictures by virtue of the job you hold, and you also probably are having this sprung on you very early.

But, again, think about the whole idea of a structural reform that moves the ownership of the policy away from the employer into the hands of the individual.

Mr. BOWLES. Yes, sir. I do believe that is a part of what we are trying to do. We have not tried to throw the baby out with the bath water. We have tried to build upon the uniquely American system of employer-based insurance coverage. You are exactly right. We have tried to build upon the uniquely American private sector health care insurance programs that we offer.

Under our plan, the employee is going to have choice. Basically, they are going to get a brochure and in that brochure there are going to be many different plans, and they are going to pick the plan that they want instead of having me pick that plan.

Senator BENNETT. My understanding is that many would have three plans.

Mr. BOWLES. No, sir. There will be lots of different plans. There are three different types of plans. And your doctor can join any number of plans. Most importantly, you can follow your doctor and the hospital. You will probably have the same person and the same hospital providing the services in the future that you have had in the past. You will have a comprehensive set of benefits and you will have a simplified form to deal with. The kinds of things that truly do make sense.

Senator BENNETT. Then why do I not feel so good about it? Why does the small business community that has looked at this not feel real good about it? Why do they not believe you when you say the vast majority of them will see their costs go down? The vast majority of them I hear from say exactly the opposite. Are they too stupid to read the things you are sending them?

Mr. BOWLES. No, sir. Clearly not. Absolutely not. But I do think some of them have reacted without having the information that they need. Some have reacted just based on some of these insurance company ads from the special interests that are on TV.

We sent to your office, as an example, a form that any of your small business owner constituents can fill out and calculate exactly what their costs will be under the President's plan. What I am saying is, if you ask them to do that and you show them what the benefits are under the plan, the vast majority of those that have insurance today will see far lower costs and better coverage. And that is what community rating does.

Senator BENNETT. Well, I have made my points and I again apologize to you for having to be the target of these points. But I conclude with the conviction that we need to change the present system; we need to change it drastically. We need wholesale health care reform. But the proposal on the table is worse than the present circumstance and we ought to start all over again.

And the point that I would like to start all over again if I were heading a health care task force would be let us recognize that most of our present problems spring from the fact that we have an employer-based system. And, instead of embracing that system as the core of our reform, let us get a clean sheet of paper and start moving in the direction of the realities of the 1990's, which are very, very different from the kind of history that we have had.

I could wax eloquent about a number of other things, Mr. Chairman and I realize I am abusing my privilege so I will shut up. And thank you for your indulgence.

The CHAIRMAN. Thank you.

Senator Pressler.

Senator PRESSLER. Mr. Chairman, I shall be fairly brief because many of the brilliant questions I had have been asked already.

Administrator Bowles, it is my understanding that the Government-run health alliances cannot cross State lines. This troubles me. In Sioux Falls, SD, for example, we have many small businesses that have operations in several States. Sometimes they simultaneously have operations in South Dakota, Minnesota, Iowa and Nebraska.

If an employer has business operations in four States, will the business be required to deal with multiple alliances? I am concerned that this may create more paperwork and that additional costs will be imposed on small businesses. How will that work out for a business located in Sioux Falls that has operations and employees in four States?

Mr. BOWLES. I believe you are correct, Senator, that they would have to deal with more than one alliance. But let me at the same time make sure I make it clear that I believe the plan we are proposing simplifies the system. I do not believe you could design a health care system that is more complicated than the one we have today with the raft of forms, with the exclusions for pre-existing conditions, with the payments on a procedure-by-procedure basis.

What we are talking about is simplifying the system, going to things like uniform billing, standardized forms, electronic claims processing to take real costs and simplify the system for the customer. I think that is what our plan does.

But the answer to your question is yes, I believe.

Senator PRESSLER. I am not badgering you here today, but that would be quite a bit of paperwork to deal with. I also understand that if employees are going to come into Sioux Falls for treatment from Minnesota or Iowa, they would have to contract out of one alliance into another, generating still more forms—there would be a paperwork wall, so to speak. I have many constituents living on the borders of Minnesota, Iowa, Nebraska, and on the other side of the State on the Wyoming and Montana borders, who come into Sioux Falls or Rapid City for treatment. Under the administration's plan, those individuals would be coming from another alliance and there would have to be a piece of paper to get them in, would there not?

Mr. BOWLES. Senator, let me provide that to you for the record. I do not want to mis-answer the question and I do not want to imply that you are right or wrong, either. I just want to make sure I answer it correctly.

Senator PRESSLER. OK. This is a concern we have about the paperwork wall that will exist, especially in places like eastern South Dakota where so many businesses have operations in numerous States.

Let me turn to a question about insurance agents. I know that with the establishment of these regional health alliances, the role of the small and medium-sized insurance agent would be virtually eliminated. There are about 150,000 Americans who make most of their living selling health care coverage, and I am told there are 900 of these individuals in South Dakota. What, if anything, would you say to these small businessmen and women?

Mr. BOWLES. I think some of your assumptions are correct. I believe there will be fewer people engaged in the insurance business of selling health insurance. Most of these people sell products in addition to health insurance; they sell other insurance products, so I do not believe it will force many to actually go out of the insurance business but they will have to move to other products within the insurance industry.

I think you will also see fewer people in the administrative end of the health care system, and I think you will probably see more people in the health care providing end.

Senator PRESSLER. The administration's health care plan contains an employer mandate requiring employers to pay 80 percent of the cost of health benefits for their employees. These costs are capped at 7.9 percent of the payroll I believe for small business. However, I have learned that employers may be required to pay an additional "premium collection" add-on, apparently to create a fund to cover losses experienced by alliances. That is, employers can be required to pay more than the 7.9 percent of payroll to help an alliance offset any revenue shortfall.

Could you please explain to me how this premium add-on will work and why, when the administration argues that its numbers are solid, it has included such a provision? Is there any limit in the bill on how much employers can be assessed for premium collection shortfalls?

Mr. BOWLES. I will have to provide that to you for the record, Senator.

Senator PRESSLER. Yes. I would appreciate that very much, because it appears that it is capped at 7.9 but then there is a provision elsewhere that there is a premium collection add-on, as I have said.

Mr. BOWLES. I would like to add, though, it is not just for small business. It is for all business where it is capped at 7.9 percent.

Senator PRESSLER. All business. All right. But we would like to know what the scope of that add-on might be if the alliances ran short of money.

Mr. BOWLES. I will be happy to look into that.

Senator PRESSLER. One final question here and then I have several written questions. One provision in the President's Health Security Act basically would allow the Secretary of the Treasury to revise current IRS rules used to classify an individual either as an employee or as an independent contractor. I understand the administration is trying to prevent abuse of our tax system, but I am also concerned that an overly rigid application of the Tax Code actually may result in an unfair mislabeling of independent contractors as employees.

Why is the Secretary of the Treasury being given this extensive regulation-writing authority? Will such regulations be subject to the ordinary comment and review process?

Mr. BOWLES. As I think you know, Senator, that is a provision that I have struggled with, that I have spent a good amount of time in discussion with the Secretary of the Treasury about.

The purpose of the provision is an anti-gaming provision. It is an anti-abuse provision to keep employers from off-loading employees

and calling them independent contractors when they really are employees of the business. That is the purpose behind it.

The regulations, as I understand them, clearly protect those who are statutorily protected today, and that would be folks like the real estate salesmen, the insurance salesmen, anybody involved in direct selling. It also, in the language that I have read, says that those who are currently protected under the common law, the common law will be given great weight in making the decision as to how the new regulations go forward.

Further, it says that any regulations that come forward from the Secretary of the Treasury would not go into effect until 6 months later, until after such time as the Congress has had a chance to review it.

Clearly, Secretary Bentsen has testified that this is a difficult problem. It is one the Congress has struggled with and wrestled with for a long period of time—that any changes that we make would be made in conjunction with a lot of discussion and contact with industry trade associations, with the Congress and with various other people similar to what has gone on in the Compliance 2000 discussions that have occurred to date.

Senator PRESSLER. The administration plan also proposes that firms pick up the tab for part-time workers, pro-rated based on a 30-hour work week. I am very concerned that part-time jobs would be phased out as it became less expensive to hire one-full time worker than two part-time workers. Many parents, students and others depend on part-time work to meet their needs.

Has the administration estimated the effect its plan will have on the number of part-time jobs available? And why is the 30-hour work week used as the baseline rather than the 40-hour work week the majority of the business community recognizes?

Mr. BOWLES. First of all, it has looked into the part-time situation. I described it a little earlier. You are not required to provide health care for anyone who is under the age of 23 and is a full-time student. You are not required to provide health care, as I understand it, to anyone who is under the age of 18, period. You are not required to provide health care to anyone who works less than 10 hours a week or 40 hours a month.

Those provisions are in the President's bill.

Senator PRESSLER. In my home State of South Dakota we have tourism and agricultural seasonal workers. Would the employers have to pick up the health insurance for an entire year for people who are seasonal workers in agriculture or tourism?

Mr. BOWLES. No, sir. The calculations are the same as that for part-time workers; only for the percentage of the time that they do work.

Senator PRESSLER. I have many more questions for the record, Mr. Chairman. I would just ask one final question.

Have any small business groups endorsed the Clinton health care plan?

Mr. BOWLES. There are several trade organizations that do support the President's plan. I will be glad to provide those for the record. I do not have a list here with me today. And there are many that are opposed to it.

Senator PRESSLER. Yes. I would like to get a list of those supporting it, if that is possible.

Mr. BOWLES. The trade organizations.

Senator PRESSLER. Mr. Chairman, may I ask several questions for the record?

The CHAIRMAN. Certainly.

Senator Levin.

Senator LEVIN. Thank you, Mr. Chairman. I had to leave right after the discussion about worker's compensation. I do not know whether it was picked up since I have been gone or not. If you covered this ground, then I will read the record.

On the worker's compensation point that the Chairman spoke about and Senator Wellstone and perhaps others spoke about, and the question of whether the medical part of it should not be folded into the President's plan. And the answer that I heard from Secretary Reich was that the reason that was not folded in, kind of formally folded in, was because of the fact that perhaps might take away some of the incentive of the employer to keep a workplace safe. That seemed to be his answer.

Now, it would seem to me that the fact that the other 60 percent would not be folded in, the part representing the payroll, is plenty incentive for the employer to keep the place of employment safe. And that if we folded the medical part into whatever final program we adopt, that we would be losing, yes, part of the incentive but we would be keeping the majority of the incentive. Have you covered that issue further since Secretary Reich left?

Mr. BOWLES. I can only address this portion of it. First of all, from a health care viewpoint, if you have a worker's compensation accident on the job, you would get your health care through the alliance and, therefore, get it at a lower cost.

Senator LEVIN. I understand that. Yes.

Mr. BOWLES. Two, there is a commission set up to look at how you integrate an experience-rated system with a community-rated system. And it is a difficult task to do.

Senator LEVIN. Why is it particularly difficult just to say, fold it in? The only answer I heard from Secretary Reich was if you fold it in you lose part of the incentive to keep your work place safe.

Mr. BOWLES. I think that is what Secretary Reich was trying to say. We do want to make sure that businesses still have incentives to provide a safe place to work.

Senator LEVIN. My question of you, though, is would not the 60 percent jeopardy that you got left be a significant incentive to keep your workplace safe so you do not have to pay the 60 percent, since that is rated as well?

Mr. BOWLES. Senator, if I could answer that question, the only item on my income statement that rose at a more rapid rate than health care costs was worker's compensation. I am all for doing anything we can to bring down the cost of health care and bring down worker's compensation costs.

Senator LEVIN. Well, Mr. Chairman, I would like to join you and Senator Wellstone and others who may have spoke on this subject that I also thought it was folded in, by the way, because of early conversations and assumed it had been. And I understand your point, by the way, which you made before, which is that presum-

ably, worker's compensation rates are going to go down since the medical portion of it is going to be "covered" under the proposed alliance. That should be reflected.

I see no reason, frankly, no compelling reason, not to simply fold in the medical part, formally fold it in so that employers are no longer responsible for that part since it is going to be covered by the alliances anyway. And as far as taking away part of the incentive to keep their workplace safe, yes, part of it would be gone. It is outweighed, though, by the benefit of having a fairer health care system, and you are leaving most of the incentive in place in any event and I think it is plenty adequate to give the employer every reason to keep his work place safe.

So I will leave it at that. I just wanted to basically, unless this has been plowed in the last hour, wanted to indicate my sharing of the kind of concern which the Chairman, Senator Wellstone and perhaps others have given.

Have you made any analysis of how many small businesses are now paying what percent of their payroll for health care? Would you be able to tell us either now or for the record that X number of small businesses, let's say under 25, are paying 5 percent of their payroll for health care; Y percentage are paying 8 percent or less? Do you know what I am saying? Have you done that analysis so we could make the argument, which many of us know is true, that there are plenty of small businesses out there that will, in fact, be paying less for health care than they are now if they are providing health insurance? Do you have the numbers, the breakdown, on that?

Mr. BOWLES. I have it from two different sources so it may be apples and oranges. I do know the percentages of small businesses, according to certain sources, that do provide health care benefits broken down by number of employees. Then from a separate source, from HHS, they can provide some information that says, as an example, the average small business that has fewer than 25 employees currently pays 9 percent of payroll for health care costs. Under this proposal, the average business will go to 6.4 percent. So we can provide you that, but they are from two different, separate types of studies and they may not cover the same set of benefits.

Senator LEVIN. Would you be able to give us an apples and apples number on that?

Mr. BOWLES. I can sure see if we can get that for you.

Senator LEVIN. It sure would be helpful, because there's a lot of concern from the small businesses that do not cover—and I understand that concern and we have got to be real careful that whatever we do does not unnecessarily impact small business. I mean, there is some impact that is going to be necessary, I would think. If people have not been sharing or contributing at all and they are going to be asked to contribute something, that is an impact. We might as well acknowledge that is an impact. There is a good reason equitably to do it, but there is an impact.

But what troubles me, frankly, is that there are a whole bunch of small businesses out there, I think a significant percentage at least in my State of Michigan, that currently provide health insurance that will be better off economically under the President's pro-

posal, and we have not been able to give them hard numbers as to how many of them, what percentage.

Mr. BOWLES. Senator Levin, we can do better than that. We can give you a form, which we have sent to your office and to every other Senator's and Congressman's office that will enable any business in your community to calculate exactly what their cost will be under the President's plan.

Senator LEVIN. Yes. I have seen that form. But what I would like to see is the numbers of how many small businesses are in various categories that currently provide health insurance, and how much they would gain or lose by category under the President's proposal. I would like to be able to say, "Look; there are 25,000 small businesses in Michigan under the size of 25 that are paying 8 percent right now and are going to pay 5 percent under the President's proposal." I would like to be able to say that. I have not seen that number. If you could give us any numbers, whatever the numbers are. Most people believe——

Mr. BOWLES. That is a reasonable request and I will see if I can get it for you.

Senator LEVIN. All right. Finally, it is the same type of question but it has to do with the self-employed.

Right now, self-employed people get 25 percent tax deduction for their premiums.

Mr. BOWLES. It is unfair.

Senator LEVIN. Do we have the numbers as to how many self-employed people there are that are in that situation?

Mr. BOWLES. I do not have that with me but I will be happy to supply it for the record.

Senator LEVIN. Do you know whether it exists?

Mr. BOWLES. I am sure it does.

Senator LEVIN. And has that been made available publicly, do we know?

Mr. BOWLES. I do not know the answer to that.

Senator LEVIN. It seems to me that is an important question, too.

The CHAIRMAN. Senator Levin, if I may, if you will yield. Staff tells me that is between 15 and 17 million.

Senator LEVIN. Yes. I think it is so important. I do not think that message has gotten through, that there is 15 to 17 million people who, under the President's proposal, would get 100 percent tax deduction for their premiums——

Mr. BOWLES. As opposed to 25 percent currently.

Senator LEVIN. Right. The premiums may be less now, by the way, than they will be, maybe more. So if you could break down that as to what the average premium is for the people who are self-employed, it may be useful.

All I am saying is I think there are a lot of people under the current situation who will be better off under the President's proposal if they are paying for their health care or if they are an employer paying for their employees' health care. That is all I am saying. And I do not think the case has been made well on those numbers.

Mr. BOWLES. Senator, there will also be some people who will be better off who today have just one, two, three or four employees and have a family policy for themselves but do not provide any coverage for their employees. They will be able to have insurance for

not only their family but for their employees for less than what they are paying today.

Senator LEVIN. Yes. I think the rhetoric has been there, by the way. I think the argument has been there. What we have had not had is the numbers to actually pin onto the arguments in both those areas.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Levin.

Senator Bond.

Senator BOND. Thank you very much, Mr. Chairman. Mr. Bowles, I have a couple of brief questions that are not directly on health care but they are timely, and I raise them with you because they have been raised, I know, on the other side.

With respect to the SBA's handling of the GAO investigation and the GAO investigation of Capital Management Services in Little Rock, have you provided General Accounting Office with full access to documents and personnel?

Mr. BOWLES. Yes.

Senator BOND. Has there been any refusal of requests made by the GAO?

Mr. BOWLES. To the best of my knowledge, no.

Senator BOND. Did you give any directives to SBA employees to assist in complying with the GAO investigation?

Mr. BOWLES. Yes. I told all of our employees that they must give to any of the people who were investigating the Capital Management situation all of the information that they requested; they must do it in a timely manner, and that included Chairman LaFalce of the House Small Business Committee.

Senator BOND. Can you assure the Committee that documents in the possession of the SBA in the District of Columbia, as well as the documents in Little Rock, have been preserved and protected? And have you taken any special steps to assure this happens?

Mr. BOWLES. Senator, I have recused myself from the Capital Management situation. I felt that was the appropriate thing for me to do. I did, however, leave very strict instructions that we were to cooperate in every shape, form and fashion, and that we are to deliver the information as quickly as possible.

Senator BOND. I am today sending a letter to Comptroller Bowser informing him that if he is considering not issuing a formal report to Chairman LaFalce, that he should do what the agency has done so many times before, and that is, issue it as an open letter to you as the Administrator of the SBA instead. I would hope that you might agree with me that it is important that the GAO, number one, do a thorough job. You have assured us the SBA is cooperating fully. And the results of that investigation should be made public either as a report to the requester or, if the requester does not wish it, then as a letter to the Administrator. Would you agree?

Mr. BOWLES. I simply do not know the procedures that go on. I have recused myself. I would suggest that you deal with the Deputy Administrator on this matter.

Senator BOND. Well, without getting into the substance of it, would you agree that the results of a GAO investigation into your

agency should be made public, regardless of what is the substance of that report?

Mr. BOWLES. Senator, I personally have no objection whatsoever to anything that we have done being made public. I have asked our people to pursue this matter with all vigor. I have asked them to give every bit of information they can to all of the investigating departments and to do it as quickly as we possibly can, including Congressman LaFalce.

Senator BOND. I commend you for that. But do you think that it is appropriate, having taken those steps, having issued instructions to the staff to comply fully, that the GAO conclusions, whatever they may be found, be made available in some mission, in some manner, so that the Members of this Committee, the Members of this body, the Members of the Committee on the other side and the Members of the entire body may know what the GAO has found out?

Mr. BOWLES. Again, Senator, I do not know the rules and procedures.

Senator BOND. I am not asking you the rules or procedures.

Mr. BOWLES. I have answered your question already by saying that I would have no objection to that. There is nothing we have to hide. There is nothing I do not want you to see. There is nothing that I have the slightest concern for you to look at.

The CHAIRMAN. If the Senator would yield, I think that making that report public is probably more in the domain of an option for Mr. Bowser than it is for Mr. Bowles. Is it not?

Senator BOND. Well, the General Accounting Office is supposed to work for us, and I would suggest that it would be desirable if the Comptroller made a thorough, independent investigative review. The Administrator has instructed his people to comply fully, and the best solution to this whole line of inquiry would be to let the sunshine in and get it over with quickly so we do not have to chew on this bone for another few months.

The CHAIRMAN. Well, let me say this. I am not a player in that decision, but I would say, first of all, that the matter is going to be tried in a public forum and the president of Capital Management is going to be the defendant. I do not know how long that trial is going to last. It starts in a week or two. My guess is there is going to be all the sunshine anybody could stand during the course of that trial as to Capital Management and how it was operated.

Senator BOND. But, Mr. Chairman, I beg your indulgence. They will handle Capital Management in that proceeding, but we, with the responsibility of oversight over the SBA, ought to be looking at what the SBA did to find out if there is anything that we should do to, through, with or about the SBA to avoid in the future any problems which may or may not have occurred. I am not at all familiar with the details, certainly of the prosecution. I am just saying as a Member of the Small Business Committee, if something was done improperly and it was prior to your tenure, clearly, Mr. Bowles, we need to know what steps should be taken to assure the SBA operates properly. That is my point.

The CHAIRMAN. Let me say, I totally agree with what the Senator has just said, I think. And that is that, number one, this may

or may not be a problem that we ought to exercise oversight responsibility on. I think it probably is. But oftentimes, as my father used to say, if somebody sets out to get to you or to defraud you, you might as well just suck it up and let them do it because they will get it done.

The allegation in this case is that the SBA was defrauded. Now, I have no hesitancy about looking at the kind of fraud that was alleged, if it is in fact proven, to say we need to tighten up our controls to make sure we do not have a repetition. That is what oversight is all about.

Senator BOND. And that is my point.

The CHAIRMAN. Yes. And I totally agree with the Senator on that. I would hope that report would not be made public, and certainly, I can promise you we are not going to have an oversight hearing on it here until after that trial has been concluded, number one. And, number two, until Mr. Fiske told me personally that he thought it was proper for us to hold that hearing. And that we would, by doing that, not compromise him in any way.

Senator BOND. Well, I would imagine that what is relevant is the behavior of the SBA, and that the report from the GAO would not involve any evidence or allegations which might go to the fraud allegedly perpetrated by Judge Hale.

The CHAIRMAN. I think the Senator and I are on the same wavelength. I do not think we have a problem with that. I would point out that it was the Small Business Administration that discovered the fraud. I do not know; it might have been belated. That would be the ones we could inquire about. But, to give the devil his dues, it was the SBA that determined that the fraud—or at least in their books—had been perpetrated and handed this over to the Justice Department for handling.

Senator PRESSLER. If it is possible, maybe we can hold an oversight hearing when this thing gets further down the road.

The CHAIRMAN. Absolutely. I have no quarrel with that whatever.

Senator PRESSLER. And dig into this whole thing.

Senator BOND. If the report suggests that there is need for an oversight hearing, then we would recommend one to you.

The CHAIRMAN. Absolutely. We might have one whether it is suggested or not.

Senator BOND. Might as well.

The CHAIRMAN. The Senator I do not believe was a Member of this Committee at the time we had many oversight hearings on the way the whole SBIC operation was being conducted, and that was brought to our attention because we found out there was a considerable amount of fraud in the SBIC program. I do not know whether the ultimate losses can be determined yet or not, Mr. Bowles, but at one time we were looking at $.5 billion to $1 billion loss in the SBIC program because of outright fraud.

Of course, that is like prostitution. It has been around a long time and fraud will always be with us. I do not know of any way we can ever design every law to make sure that nobody perpetrates a fraud. If somebody wants to violate the law, that is always their privilege.

Having said that, as I say, an oversight hearing on this might be entirely proper at the right time, and I promise you, this Committee chairman will certainly hold one.

Senator BOND. Thank you, Mr. Chairman. And thank you, Mr. Bowles.

The CHAIRMAN. Mr. Bowles, let me just ask you a few concluding questions. No. 1, one of the things that has troubled me about the President's plan from the very beginning is a separate part of the small business problem. That is, we have a category of 25 employees or less; the subsidy rate for employers with 25 or less is one rate. The subsidy rate for businesses with between 25 and 50 employees is another. And from 50 to 75 employees, still another.

Mr. BOWLES. It is really not as different as it just sounded, Mr. Chairman. The subsidy rate for those with less than 25 employees starts at 3.5 percent, then goes to 4.3 percent and then 5.2. Then the one from 25 to 50 starts at 4.3, and the one at 50 to 75 starts at 5.2. We did that so you would not fall off the cliff.

The CHAIRMAN. I understand that. But, for example, all three of those categories are based on the average wage of your work force.

Mr. BOWLES. And number of employees.

The CHAIRMAN. That is right. So let me just walk through a hypothetical case, because I think that is the one that clears it up or makes it clear as to what the problem is, as I see it.

If I have 25 employees and the average wage of those 25 employees is $12,000 or less, I would only pay a 3.5 percent premium on my payroll—tax, whatever you want to call it. Now, if I have 25 to 50 employees and the wage rate is still $12,000 or less, the premium rate for that is 4.4 percent. Now, if I have 25 employees and I know that if I hire one additional employee I am going to pay 1 percent more for health insurance on every one of the first 25 employees, in short, I am going to have to look very carefully before I hire the 26th employee because there is going to be a disparate burden on me by doing that. My rate is going to go from 3.5 to 4.4 percent, so I am going to be very careful before I hire the 26th employee.

Mr. BOWLES. Senator, that is to some extent true. On the other hand, it is equally true that today, if we do not do something to reform health care, the costs are going to go up by 20 to 50 percent a year and nobody is going to be able to afford it.

The CHAIRMAN. Mr. Bowles, I understand that. But all I am saying is, there is a built-in disincentive to do something that we have always encouraged; and that is, hire more people and pay people more wages.

Now, in the same category, for example, I am not at all sure we ought to distinguish between a business with 25 employees and 75 employees.

Mr. BOWLES. But in the very example you used, the cost increase is so small that it would not stand in the way of anybody hiring an additional employee, I do not believe. If you take 3.5 percent of $10,000, the example you are using, that is $350 a year. If you take 4.4 percent of that, that is $440 a year. That is a $90 difference in increase in cost in a whole year.

The CHAIRMAN. Well, $90 times 25 employees, though. That is what that 26th employee is going to cost you.

Mr. BOWLES. For the whole year, yes, sir.

The CHAIRMAN. It is going to cost you $90 per employee for 25 employees—say it is $100 more, for easy figuring. That is going to cost you $2,500 more for your first 25 employees if you hire the 26th one.

Mr. BOWLES. Yes, sir.

The CHAIRMAN. And I am saying that is a pretty sizable disincentive for small businesses that are struggling.

In addition to that, the other thing we encourage employers to do is to pay decent, living wages. Here you have employees whose average wage is $12,000 or less, and if you get above $12,000 you are going to go into a different category for what your premium will be. So there you have an incentive to keep wages below $12,000. Because there again, if you raise wages above $12,000, it may be $12,500, but it is going to cost you a pretty penny because you go into a different sliding scale figure on what your premium will be.

Let me make one other point. From a small business perspective, you can tell from the questioning particularly on this side of the table this morning, this employer mandate is a very volatile subject. It seems to me that we might have to do some refiguring to try to phase small business into this program. You might start off, as we did in the Medical Leave Act, exempting—I think we exempted 50 employees and less. If you have less than 50 employees right now you are not covered under the Medical and Family Leave Act.

It might be that we would start with a 50-employee exemption, go to 40 employees the second year, 30 employees the fourth year or something like that just to make sure we do not create too much economic dislocation as a result of these mandates.

Having said that, I would find it very difficult to vote for anything that does not provide for universal coverage and does not remove pre-existing conditions. Those are two things that in my opinion any developed, civilized nation cannot do without.

Now, we heard several realistic arguments. Some of them are, what shall I say, in unison with ideological arguments about the free marketplace, supply and demand, solving all of these problems. We have as good a free market system as any nation on earth, but it has not solved this problem.

Mr. BOWLES. That is true.

The CHAIRMAN. It is a mammoth problem. And I think, frankly, Whitewater, unhappily, has probably caused more people to lose what confidence they had in the Clinton plan than due to the actual merits of the plan. I think people have said, "Well, this whole thing is in a state of flux." The papers are full of nothing but Whitewater. "Well, maybe I ought to re-evaluate how I feel about this health care plan." I consider that, incidentally, a real tragedy.

Having said that, and I know I am preaching to the saved here. But we should never lose sight of the fact that what we are trying to do is to accomplish something very civilized for our people, and that is to make sure everybody has coverage, that they do not have to worry about being turned down for health care because they cannot pay. And you cannot do it in an uncomplicated way, but what

I am saying is we are trying to do it in a way that is the least traumatic to the business community of this country.

If General Motors opted to go with this program, they would pay about 14 percent of their wages for all their health care plans. They could drop that almost in half by taking the 7.9 plan. I doubt that they will. My guess is that companies like General Motors and others that are self-insured will continue to do exactly what they are doing right now; continue with their present plans.

That brings me to another problem, and this is not a small business question but I would like your comments on it. The Clinton plan stipulates that if you have 5,000 employees or less, you may not self-insure. I think that is a terrible provision. I have an employer in my State who employs 3,000 people. He says that to lose that and go onto this plan would cost him $1.5 million a year extra, that he did not make that much money last year, and that his employees are perfectly happy with what he is giving them.

So I think that as long as a business that self-insures its employees, as long as it is as good or better than what the alliance is offering, I see no reason not to let them continue being self-insured.

In this particular operation in Arkansas, they do all kinds of things. They offer educational programs on how to stay healthy. I think they have a gymnasium for their employees so that they can exercise and do all those things that help keep them healthy. And they do all kinds of things in the plan on a group plan. They maybe have a core of 20 people, and that core of 20 people makes suggestions on how they can make their particular workplace safer.

To give that up, or to force him to give it up, I think is like shooting yourself in the foot. So that is going to have to be looked at. Do you have any feelings about that?

Mr. BOWLES. Yes, sir, I do. First of all, I think it has been made very clear that there is no magic to the 5,000 number for the corporate alliances. We have talked to various trade associations and so forth about allowing them to continue to have their own alliance going forward if, in fact, they did not engage in adverse selection, which you could not allow, and if in fact they were solvent. But there are a number of problems that occur as you reduce the number below 5,000.

At 5,000, we would currently have about 1,500 alliances or buying groups out there. If you drop to where you only had 100 employees and below that you have to be in a buying group, then you would go up to as high as 90,000 different buying groups. Also, as you drop the number down, the risk of bankruptcy of that company increases exponentially. At 5,000 employees, the number of bankruptcies you would expect in a year is about seven. The numbers go to almost 600 when you get down to 100 employees.

So you can see the regulatory burden and the administrative costs would vastly increase as you increase the number of alliances. The main thing we also want to make sure of is that, once you get the size group that cannot stay out of the alliance down to let's say 100, that causes us great concern because then you would end up with the small businesses being grouped together with the poor, the indigent, the uninsured, the currently uninsurable, and that might cause the cost of that to rise and it would be self-defeating. So you have to have some reasonable size limit for your cutoff to

make it work for the buying group to really have the market muscle it needs.

The CHAIRMAN. Finally, when Secretary Reich says—and you say you agree with it—that overall there will be no job loss—there will be job losses in certain sectors, and possibly job increases in other sectors. Is that correct? So that you are saying, on balance, there will be no loss of jobs?

Mr. BOWLES. Yes, sir. Basically, I was first quoting the CBO study, the independent study, which says they do not believe there will be any job loss. Two, if you look beyond that, I was quoting the Employee Research Benefit Institute which says that the Clinton plan will create 660,000 jobs. I was quoting the Economic Policy Institute study that says it will create about 258,000 manufacturing jobs.

Now, I have not seen any study that breaks it down sector by sector. However, as I testified earlier, I am confident that you would see fewer jobs in the insurance business as an example.

The CHAIRMAN. I thought Senator Pressler made a very good point this morning. That is a point we have all known about.

Mr. BOWLES. I think you will see fewer administrative jobs in the health care services area, and I think you will probably see more jobs for health care providers, particularly because of the long-term care for the elderly that is going to be available. That is the only sector-by-sector analysis that I have seen. But overall, we do not expect any significant job loss.

The CHAIRMAN. Somehow or other, people who are opposed to this plan have come to make "alliance" a bad word. I could not disagree with that more. You mentioned that central Ohio small business group in Cleveland, COSE, and my sister was instrumental in founding that organization and she always stayed close to them even though she has been retired for a while.

But I am told that through that organization and the pooling of insurance purchasing—and, incidentally, they do it on a competitive basis, the good old American free enterprise method. They put it out for bids. They tell me that their membership is saving roughly 30 percent over what they were paying before. So do not think that there is not plenty of economic clout in these alliances to bring health care costs down.

Mr. BOWLES. I am a great fan of COSE. The good news about COSE, you just mentioned. I met with John Polk, who runs it a number of times. They have about 12,000 small businesses. The good news is the average small business has fewer than 10 employees so it is what we always refer to as the working uninsured—they do pay on average 35 percent less than all of the other businesses in Cleveland. The cost has grown by only 63 percent since 1986, whereas everybody else's cost in Cleveland has grown by 170 percent.

But that really is the good news. The bad news is that currently they do engage in adverse selection. They do cherry-pick.

The CHAIRMAN. I know they have not been able to overcome that. But I think they are trying, are they not?

Mr. BOWLES. Yes. But until we have a level playing field, they cannot.

And people might say, well, let us have a COSE in Charlotte or in Little Rock or in Albuquerque. The reason we have such a great success in Cleveland is we have had really fanatical leadership by John Polk who has led this organization and created this thing and gotten the mass buying group. We have tried to do the same thing in Charlotte at the Chamber, and we have about 200 or 300 members so far. It is the chicken or the egg thing; we do not have enough buying mass to bring down the cost of health care.

That is why these alliances are so important, because we cannot wait 18 years for it to happen in Charlotte. We cannot wait 18 years for it to happen in Little Rock. We have to have these buying groups to shift that power of the marketplace to really change that supply and demand equation everybody talked about today from favoring the provider of health care and the insurance company to favoring us, the consumer and small business owner. If we do that, we will have enough market muscle to bring down the cost of health care and these premium caps that everybody talks about will never come into play.

The CHAIRMAN. Mr. Bowles, I am sure you are going to get quite a few written questions. We would ask that you respond in a reasonable length of time, and we thank you very much for your patience and indulgence in being with us this morning.

[Additional questions submitted for the record.]

U.S. SMALL BUSINESS ADMINISTRATION,
WASHINGTON, DC, 20416,
June 9, 1994.

HONORABLE DALE BUMPERS,
Chairman, Senate Committee on Small Business,
428A Russell Building,
Washington, DC 20510.

DEAR CHAIRMAN BUMPERS:

Enclosed are written responses to additional questions from the March 10, 1994 hearing on the impact of health care reform on small business.

Mr. Bowles appreciates having had the opportunity to appear before the Committee as Congress deliberates reforming the health care system.

Sincerely,

KRIS SWEDIN,
Assistant Administrator, Congressional and Legislative Affairs.

SENATE SMALL BUSINESS COMMITTEE QUESTIONS AND ANSWERS

EMPLOYER MANDATES

Question 1. The employer mandate at the heart of the administration's plan would represent a huge new cost for small businesses. According to a January study by Lewin-VHI, more than 50 percent of firms that do not currently provide coverage would see a yearly increase of $1,000 to $2,500 per worker. Even 64 percent of firms that do currently provide coverage would see an increase.

What are the administration's estimates of cost increases for small businesses?

Answer. The administration estimates minimal new costs for small business; in fact, the Congressional Budget Office found that the Health Security Act would benefit smaller firms that typically pay much higher premiums than larger firms. The leveling of costs will benefit all small businesses, not just those that provide insurance today because it will level the playing field of those small businesses that currently do not provide insurance. Many owners of small businesses will pay less to cover all their qualifying employees than they do currently for their own family policies. The administration released documentation to Congress demonstrating that firms with fewer than 25 workers will experience the largest savings of 2.6 percentage points lower, or $771 less per worker, under the Health Security Act.

Do you have any numbers on how this plan would affect small, marginal businesses?

The President has fought very hard to ensure that he could offer small businesses what they needed in order to afford comprehensive health care coverage. Discounts were included in the plan to allow low-wage businesses who were less able to afford health insurance do so. As a result, the discounts will allow low-income small businesses to provide health insurance with minimal impact on their business. In fact, an increase in health care costs for currently uninsured low-wage workers in small firms is equivalent to only a very modest minimum wage increase of $.15 to $.34 per hour. An increase of this magnitude will still leave the real compensation cost for minimum wage workers below its average level in the 1980's, when adjusted for inflation. Many studies indicate that recent increases in the minimum wage have had minimal or even positive effects on employment. The President's plan will also lower overall health care costs, including the health portion of worker's compensation costs, which will benefit small businesses in general.

Question 2. Small businesses already are running scared from the employer mandate. I am especially concerned over reports that some firms already have cut back on hiring in anticipation of health care reforms that would force them to do so. What can you report about this trend?

Answer. Actually, I believe that the uncertainty of the current health care situation has hurt job growth in this country for some time in large part because employers did not know how fast health care costs would continue to rise or how much the deficit was going to increase. Reforming health care and reigning in costs is as Henry Arron said, "The best piece of news American businesses could receive. It will produce a more productive, flexible American workforce and encourage—not discourage—employment." The Small Business Administration, however, has not received any confirmation of the trend you refer to, either through correspondence or during the dozens of town meetings the Agency has held throughout the country.

Question 3. If it isn't already clear, I want to make sure all present understand that I oppose employer mandates. I find it ironic that the administration is willing to pay the employer's share of the health insurance premium of individuals who retire at age 55. The Federal Government is willing to pay 80 percent of the insurance costs for these individuals. In my view, we are creating a new entitlement. I believe, the administration included this provision in their plan to get the support of big business—the sector that saves the most from early retirees. What is the logic for including this provision in the administration's health plan?

Answer. The administration's proposal to partially subsidize the health insurance costs for early retirees does not constitute a new entitlement. Today, many companies are being forced to drop health benefits for early retirees, jeopardizing the benefits Americans have worked their whole lives to ensure. It is true that companies, particularly large firms, will achieve substantial savings from this policy. However, much of these savings are the result of community rating premiums. In addition, the Act recoups some of this windfall from 1998 to 2000 by collecting 50 percent of the estimated decrease of early retiree costs and the annual average of the actual amount they paid for early retirees in 1991, 1992, and 1993, adjusted to 1998–2000 based on the medical component of the Consumer Price Index. Finally, this provision of the Health Security Act phases out gradually for individuals with income above $90,000 per year and families with incomes of more than $115,000 per year.

SUBSIDIES AND PAYROLL CAPS

Question 1. If the Joint Economic Committee (JEC) estimates of a $1 trillion funding shortfall in the administration's plan are true, small businesses may see the currently proposed premium cap rise from 7.9 percent to a dangerously high 17.1 percent of payroll by the year 2000. With the current premium cap at 7.9 percent of payroll, job loss predictions have ranged from 600,000—3.1 million. Imagine the massive disruption to the labor market if the cap rose even to 15 percent, as has been predicted recently (JEC). How confident are you that such a situation will not arise—knowing that small businesses are responsible for funding approximately 60 percent of the Health Security Act?

Answer. The administration finds numerous errors in the methodology and findings of the recent analysis of the President's Health Security Act released by the Joint Economic Committee. These errors eliminate the credibility of all of the study's scenarios under reform. The study's central finding arises from both fundamental methodological and conceptual errors. For example, the $800 billion of the supposed "financing shortfall" comes from a gross miscalculation of the amount of

private spending after reform; the study falsely assumes that all spending for health care services will be constrained at the same rate, when the Act explicitly constrains spending for only those services covered under the benefits package; other private spending can reasonably expect to rise at the same rate as today, reducing any possibility of a "financial shortfall." The study makes unrealistic growth assumptions for non-premium private spending and government spending, which accounts for the study's finding of a financing gap. The JEC's analysis also relies on erroneous assumptions about the composition of the benefits package, the average percent of business payroll necessary to fund reform, and the plan's cost control mechanisms.

Question 2. The administration's plan offers a subsidy system to small firms designed to take some of the sting out of the employer mandate. This subsidy would come in the form of premium caps. Yet, even with the premium caps, estimates tell us private employers will spend as much as $106.4 billion more on health care under the administration's plan by the year 2000. What percentage of premiums paid by small businesses do you expect to be subsidized?

Answer. The administration disagrees with the estimates of $106.4 billion in additional business spending on health care in the year 2000 under the Health Security Act. In fact, the Congressional Budget Office concluded that business spending for health insurance will decline by $20 billion by the year 2000, and by $90 billion by the year 2004 and more than $15 billion for early retirees. Universal coverage would mean that those firms that now offer insurance would no longer need to pay indirectly through higher doctor and hospital bills for the care given to uninsured workers and their families. On the other hand, firms that do not now provide insurance would no longer get a free ride.

Question 3. Small businesses often operate on a slim profit margin—a margin of 1 or 2 percent is not uncommon. For example, the majority of restaurants average profits of 2.7 percent. These are firms that operate on cash flow and survive from month to month. The premium cap for the smallest firms is 3.5 percent of payroll. How would small firms with such a slim profit margin afford a minimum 3.5 percent increase in labor costs?

Answer. While the administration acknowledges that a 3.5 percent cap will still represent an increased cost for a business not currently providing any health care coverage, it believes that everyone must pay some share of the cost of health care. When everyone takes responsibility those businesses who presently pay nothing will no longer shift that cost to other employers, both small and large, and other consumers in general. The administration has sought to lessen the impact on those presently not paying anything and believes that the proposed system will minimize any adverse impacts on small businesses and their employees.

In calculating a business' ability to qualify for the caps, what labor costs will count as payroll costs? Tip? Overtime? Bonuses?

"Payroll" for purposes of computing the 7.9 percent cap, means "wages" according to Act Section 6123 (a). Wages are defined in the Health Security Act Section 1901 (a) (1) to have the same meaning given such term under Section 3121 of the Internal Revenue Code, including overtime and bonuses. Section 3121 provides that wages include all remuneration for employment, including the cash value of all remuneration paid in any medium other than cash i.e. stock, with certain exceptions. Cash tips will not be included.

Note that "average annual wages" is only relevant for purposes of determining the limiting percentage for small employers under Act Section 6123(b). It is not the base upon which the 7.9 percent cap is applied.

Question 4. The astronomical growth of Medicare and Medicaid over the last several decades points to the inability of the Federal Government to predict the course of entitlement spending. How are the payroll caps in the administration's plan different?

Answer. First, the administration's cost estimation process is much more sophisticated than the one used to predict the growth of Medicare in 1965. Independent experts from top accounting firms reviewed and validated the Health Security Act's budget estimates, which were purposefully conservative. Second, Medicare has expanded vastly from the program passed in 1965. Today, non-elderly disabled persons and those with chronic kidney disease are covered. Third, much of the divergence between the actual and projected dollars in benefit payments has nothing to do with health care; the general price level is simply much higher than anyone would have predicted in 1965. Fourth, a more accurate analogy to the Health Security Act's premium caps, than a comparison to Medicare and Medicaid would be regulations on public utility rates, which have been successfully constraining increases in the cost of public utilities for decades.

Furthermore, to guard against this possibility, we have been very conservative in our projections and have built in fiscal protections. The Health Security Act provides discounts on the price of insurance for small businesses and low-income people. An independent study done by Lewin-VHI determined that the amount of discounts provided was sufficient. The plan also sets a limit on the amount of these discounts that can be spent automatically. We felt an open-ended entitlement left the Federal budget vulnerable to unpredictable costs in the future, and that was not an option. This program must pay for itself, and costs must be clear and predictable. If the amount specified for discounts, plus a 15 percent cushion is spent, Congress must review the discounts and take action. This trigger reflect the President's strong commitment to fiscal responsibility.

How does the administration's plan prevent this from becoming a run-away entitlement and still provide the necessary coverage?

If, despite our best estimates and the protection assumed by the cushion, funds are not going to be sufficient, Congress will be informed and appropriate recommendations will be made for their consideration. Congress can choose appropriate action at the time depending upon the reason that the funds became insolvent. If Congress chooses not to vote additional funds, Congress must specify how the lower budget will be met. This approach is similar to that used in Social Security.

Realistically, can the premium cap be held to 7.9 percent?

The CBO, in its assessment of the Health Security Act, stated that it expects the cost containment mechanisms to be 100 percent effective, including the premium caps for employer's payments.

Question 5. The mantra of the administration's plan is "Health care that's always there." Does the administration's plan carry a similar guarantee of protection for small business owners? Can they be assured their subsidies always will be there?

The subsidies allocated to small businesses and low-income individuals are also a capped entitlement, and the plan sets a limit on the amount of funding for discounts that is automatically appropriated. However, the estimation process for small business subsidies was extremely conservative and included a 15 percent annual "cushion" to guard against any unforeseen behavior. Any funds that are not used in 1 year can be carried over to the next year so that a contingency reserve will built over time.

COSTS

Question 1. The administration also predicts that small firms currently offering insurance would see a reduction in premium costs and that these savings would be passed on to workers in the form of higher wages. Is there any evidence that workers would ever see these savings?

Answer. The Congressional Budget Office estimated that by 2004, employers would save about $90 billion for active workers and the vast majority of those savings will be returned to workers in the form of higher cash wages and higher corporate profits.

Would employees who choose a lower cost plan get to keep the difference between their plan and the average cost plan?

Yes, employees will be able to keep the difference between the lower cost plan and the 80 percent employer contribution, if the employers 80 percent weighted average plan is more than the lower cost plan.

Question 2. As large corporations moved to downsize during the 1980's small businesses picked up the slack and created the bulk of the Nation's jobs. The flexibility in small firms allowed them to do this. The premium caps might offer incentives for firms to stay small in order to keep their government assistance. Such an incentive could compromise the flexibility of small firms and may hinder their growth. Have you studied the potential impact the subsidy system could have on small firms and what it might do to their flexibility, as well as their ability and desire to create new jobs?

Answer. We expect health care reform to have a negligible employment effect. The President's proposal contains a system of discounts specifically for small businesses. Evidence indicates that these minimal additional costs will have insignificant employment effects. This level of cost increase would not even bring the current cost of minimum wage labor up to the real levels of the mid-1980's. Analyses of recent and prior increases in the minimum wage do not support contentions of job losses. In both 1990 and 1991, the minimum wage was increased by far more than 7.9 percent. Analysis of the effects of these increases on employment concluded that the impact was minimal and, in some cases, led to greater employment. The Health Se-

curity Act will improve overall economic efficiency. Today, millions of Americans stay in their jobs or on welfare only to retain their health benefits. Under reform, economic efficiency will be increased as individuals will be able to keep their health benefits when they switch jobs. Similarly, the administration predicts that health care reform will make companies, including small businesses, more flexible in their hiring decisions and growth opportunities as a result of health care reform.

In point of fact, in Hawaii, whereby they have had an employer mandate since 1974, the unemployment rate has dropped to one of the lowest in the Nation, small business creation has remained high, and, most importantly, the rainy day fund that was set up to help the smallest businesses provide insurance has only been tapped 5 times in this entire 19 year period. And finally, while Hawaii ranks near the top of the States in the cost of living, its average health insurance premium is near the bottom.

Question 3. Office of Management and Budget Deputy Director Alice Rivlin stated that subsidies would provide an incentive for companies to spin off subsidiaries of lower wage workers in order to take advantage of government support. Does the administration have any predictions of the number of firms that would reorganize in such a fashion?

Answer. The administration does not have any official estimates of the total number of firms who would respond in the above mentioned manner. Although, provisions in the Health Security Act do address this concern.

What will be proposed to prevent this from happening?

The administration included in the Health Security Act language that would address the concern of companies spinning off subsidiaries in order to take advantage of government support.

The Health Security Act includes targeted anti-abuse provisions, which balance recognition of the varied relationships involving workers with the need to limit employers' ability to avoid their health care obligations by intentionally misclassifying their workers as independent contractors. These rules are essential to preserving the integrity and overall fairness of a reformed health care system. First, the Act authorizes the Treasury Department to issue prospective regulations for determining the classification of workers for health care and employment tax purposes. The focus of the regulations will be on preventing "gaming" of the health care system in the future. Thus the goal will be to provide clearer, more objective rules without resulting in substantial reclassification of workers.

Question 4. Labor intensive industries, such as repair services and manufacturing, would see their costs rise the most. Some labor intensive jobs may be replaced by automation to save costs. Does the administration have projection on this possibility?

Answer. The rising cost of health care is a hidden tax on manufacturing workers and employers, hurting businesses, limiting job creation, and threatening their competitiveness. Health care reform will bring down the costs most businesses who provide insurance to their workers, allowing them to create jobs and increase wages. CEOs at some of the top companies in America like Chrysler, Bethlehem Steel, American Airlines, Archer Daniels Midland, and McDonnell Douglas have said that they support the President's plan because it will help them become more competitive. The Economic Policy Institute projects that 258,000 manufacturing jobs will be created over the next decade. The Employee Benefit Research Institute predicts that the President's proposal could produce as many as 660,000 jobs. There will also be health care jobs created with one health economist at the Brookings Institution predicting that the plan will create 750,000 health-related jobs.

COSTS

Question 1. One estimate states the administration's plan would hand an $11 billion windfall to big businesses, while it would cost small businesses $18 billion. How can you justify such a radical redistribution of the costs of doing business?

Answer. Our estimates do not reveal any windfall for large businesses at the expense of small firms. The Health Security Act will level the playing field by requiring all businesses to contribute something for their employee's health care coverage. Most importantly, the plan forces insurers to charge the same rate to all businesses, large and small, effectively ending insurance market discrimination that exists today against small firms.

Question 2. Government regulations already cost the U.S. economy more than $430 billion each year. What is your estimate of how much the regulatory burden created by the administration's plan will cost the U.S. economy?

Answer. By relying primarily on the competitive power of the marketplace, the President's approach involves minimal government regulation.

Question 3. We all know the administration's health plan contains an employer mandate, requiring employers to pay 80 percent of the cost of health benefits for their employees. These costs are capped at 7.9 percent of payroll. However, I have learned that employers may be required to pay an additional "premium collection add-on"—apparently to create a fund to cover losses experienced by alliances. That is, employers can be required to pay more than the 7.9 percent of payroll to help an alliance offset any revenue shortfall. Could you please explain to me how this premium add-on will work and why, when the administration argues that its numbers are solid, it has included such a provision?

Answer. Under the Health Security Act, the amount payable by an employer will be increased in order to cover the regional alliance's premium collection shortfall. This amount will be calculated in three steps. First, the estimated amount of the shortfall is divided by the number of regional alliance eligibles. Second, this per capita amount is substituted for the reduced weighted average accepted bid in the formula to calculate the weighted average premium (i.e., it is multiplied by the uniform per capita conversion factor and the premium class factor). Third, this amount per family type is multiplied by the appropriate number of enrolled individuals and families, as defined in section 6122(a). This amount is added onto the employer premium payments after discounts. Since the Health Security Act provides for stiff penalties against firms or individuals that fail to pay premiums, we anticipate that the shortfall amounts will be small.

Is there any limit in the bill on how much employers can be assessed for premium collection shortfalls?

There is not an explicit cap on the amount employers pay for this add-on.

Question 4. Traditionally, the insurance carrier has notified individuals of changes in the insurance plan. In the administration's plan, it is my understanding that employers will be responsible for notifying their employees of any changes in the health plans—that is any changes in benefits, co-payments, premiums or deductibles. Is that accurate? I am concerned this will put an additional cost and administrative burden imposed on small businesses.

Answer. Any changes in insurance would all occur at different levels. Changes in the co-pays, premiums, and benefits would be reported to the regional alliances and they will be responsible for disseminating the updated information to employees. There will be an annual open enrollment in which information on all plans and their costs are distributed by the alliances.

Question 5. The Health Security Act attempts to contain costs by limiting rate increases in insurance premiums. These are price controls. We learned an expensive lesson in the 1970's when President Nixon imposed price controls. Ultimately, these had a negative impact on our economy and contributed to the high inflation rates. Why wouldn't the price controls promoted by the administration have the same kind of negative impact on the economy?

Answer. The administration has specifically rejected a policy of imposing price controls on health care. Our primary strategy for cost containment is private sector competition by creating the right economic incentives to bring costs in line and encourage health plans to compete on price and quality. However, we strongly believe that regardless of how quickly competitive reform takes, we need to build some discipline and certainty into our system, so that businesses and consumers know that their health insurance premiums will not be allowed to suddenly spiral out of control one year, and the Federal Government will not spend without accountability.

It is also important to note that there is a difference between caps on insurance premiums and price controls. Price controls involve governmental micro-management of every health care service, drug technology and product. The premium caps are a reinforcement measure to build discipline and certainty into our health care system while retaining the flexibility needed to meet local needs. Plans, providers and suppliers remain free to negotiate the price of goods and services and to develop the most effective mix of goods and services to meet the needs of their enrollees. Health plans can allow the costs of some types of goods and services to increase disproportionately to others, to meet the particular needs of their enrollees. The ceiling applies only to the entire bundle of expenditures. Premium caps will not stifle competition. Every health plan will operate under the same cost inflation ceiling, but will also have freedom to negotiate prices under that ceiling, plans will be competing to find the most efficient mix of goods and services, so that their premiums will be competitive.

Question 6. Department oF Health and Human Services released a study on February 28, 1994, entitled "Impact of the Health Security Act on the States." In that study, the administration projects health care costs for employers by the year 2000 under its proposal. The study predicts employers would save money under the administration's plan.

Can we assume that the analysis in that study and all other projections of employer spending are based on the financing of the Health Security Act analyzed by the CBO?

Is your analysis of employer spending in the report based on an employer subsidy that CBO said is under funded by $72 billion in the first 5 years?

Page 9 of the HHS report indicates that firms that do not currently provide insurance for their employees would have new payroll costs in the amount of $31.6 billion in the year 2000 alone. Firms that cannot currently afford to provide insurance are predominantly the smallest in the economy. Do you believe these firms can afford a $31.6 billion increase in payroll costs?

Answer. The estimates in the State impact analysis produced by the Department of Health and Human Services were based on the administration's estimates, not the CBO's. As noted on page 9 of this analysis, "On balance, both the CBO and the administration predict the Health Security Act will reduce business spending compared with current policy by similar amounts."

Firms that currently do not pay for health insurance will incur new costs under the Health Security Act. These will be manageable for several reasons. First, most of the firms that currently do not offer insurance are small and low wage, and thus will receive deep discounts on their premium payments. Second, since all firms will be paying these costs, the playing field will be evened out so that there can be fair competition between firms that do not offer health insurance.

Question 7. A December 21, 1993, Ways and Means Committee news release stated, "the premiums paid by employers and individuals would include additional assessments to cover the cost of certain federally financed programs, such as academic health centers and graduate medical education, alliance administrative costs, and premium collection shortfalls (section 6101, 6107, 6125, 1352, 1353 of the Act)." Please explain why graduate medical education programs should be paid for by employers and how the premium shortfall collection assessments would work?

Answer. All Americans benefit from the research and advanced technology of academic health centers and teaching hospitals, and so everyone should contribute to help defray the extra costs associated with these institutions. The employer and individual's contributions to medical education will take the more direct, broad-based form of the premium cap rather than the hidden payments through higher charges at these hospitals.

Currently, medical education is funded through Medicare payments and cost shifting, where the higher costs associated with care in teaching hospitals are passed onto private payers through higher charges. Under the Health Security Act, Medicare remains a major supporter of graduate medical education, providing approximately half of the funding for the graduate education pools. Because they incur extra costs for training and research, academic health centers and teaching hospitals may not be able to compete effectively with institutions that do not perform these critical functions. The Health Security Act dedicates revenue for academic health centers and graduate medical education to preserve the strength and leadership of America's academic health centers and ensure that America's graduate medical education remains the best in the world.

PAPERWORK

Question 1. Most small businesses have no corporate accounting department and no staff to devote full time to manage paperwork. Businesses—already hard pressed to deal with the paperwork requirements imposed upon them by the Federal Government—would have to file an extraordinary amount of paperwork with their regional alliance under the administration's plan.

Please give me a full listing of all small business reporting requirements under the plan and how often each requirement would have to be fulfilled. Can the alliances also audit small businesses? Won't businesses have to refigure their subsidies and payments every time one employee changes status? How will firms with few employees find the manpower or other resources necessary to handle this paperwork burden?

Answer. The administration believes that the current health care system is anti-small business. For a small business owner to try and sit down to negotiate with an insurance company today, is a non-negotiation. All of the power of the market place is on the side of the provider and the insurance company. In addition, the

small business owner has to take time away from his or her employees, from managing their business, and from their customers in order to try to negotiate with an insurance company.

As today, the small employer must maintain records to enable it to keep employees and the regional alliances apprised of the benefits it is providing. Currently, employers providing benefits must keep records and report for tax and ERISA purposes. They also must inform the employees of the services they pay for.

The information required to be reported is information that the small employer would have to keep in order to make the required contributions for each employee to the correct regional alliance. Reporting this information to both the employee and the regional alliance allows each to verify that the correct payments have been made. Under the Act, employers must keep records so that they may make certain annual, monthly and one-time reports.

In the case of qualifying employees, employers must report annually, for each employee, the total number of months that the employee worked full-time and part-time, and the total amount deducted from wages and paid for the employee's family share of the premium. On a monthly basis, employers will be required to pay premiums and account to the regional alliance for the total number of qualifying employees working full-time and part-time, the number of hours employees in each category work, the employer premium contributions made for each employee, and the employee's health insurance policy status.

TAXES

Question 1. When funding for the subsidies falls short, Congress will be faced with several options—one of which is raising taxes. The Joint Economic Committee estimates that to make up for the shortfall, new taxes on business would have to be imposed. These takes would either be the equivalent of roughly doubling the corporate income tax rates, or requiring firms to pay up to 14 percent of payroll in mandated health premium payments. How do you expect firms to afford these additional taxes?

The administration finds numerous errors in the methodology and findings of the recent analysis of the President's Health Security Act released by the Joint Economic Committee. The study's central finding arises from both fundamental methodological and conceptual errors. For example, the $800 billion of the supposed "financing shortfall" comes from a gross miscalculation of the amount of private spending after reform; the study falsely assumes that all spending for health care services will be constrained at the same rate, when the Act explicitly constrains spending for only those services covered under the benefits package; other private spending can reasonably expect to rise at the same rate as today, reducing any possibility of a "financial shortfall." The study makes unrealistic growth assumptions for non-premium private spending and government spending, which accounts for the study's finding of a financing gap. The JEC's analysis also relies on erroneous assumptions about the composition of the benefit's package, the average percent of business payroll necessary to fund reform, and the plan's cost control mechanisms. Therefore, the corporate income tax rate would not be roughly doubled or will firms be required to pay up to a 14 percent of payroll in health premiums.

Question 2. In a February 25, 1994 op-ed in the Washington Post, Deputy Treasury Secretary Altman wrote, "Some say an employer mandate amounts to a giant payroll tax. No one in my memory has ever called a payment for private insurance between two private parties a tax." However, CBO said the following on the subject: "Regional Alliances, corporate alliances, and State single payor plans (if any) would operate primarily as agents of the Federal Government." If a new Federal entitlement financed by a percentage of payroll to be paid by employers to a Federal entity is not a payroll tax, what is?

Answer. We agree with CBO that the full operations of the reformed health system should be prominently displayed in one place in the budget. It is important that the public be able to see not only the Federal contributions to the health system, but also corporate, private, and State contributions displayed together. We disagree with CBO, however, regarding the treatment of premiums for private health insurance as government receipts. Government receipts are received by the government. Premium payments for private health insurance under the Health Security Act should not be government receipts any more than payments currently made by employers to private insurance companies on behalf of tens of millions of Americans are government receipts.

Finally, the Federal Government sets many standards on businesses that are not taxes. The requirement that employers contribute to their employees' health insurance is analogous to other requirements, such as rules requiring that employers pro-

vide a safe working environment, not hire children, offer employees family leave, or pay the minimum wage. None of these other employer mandates are recorded in the budget as a tax receipt even though they may involve expenses to employers.

S CORPORATIONS

Question 1. Effective for taxable years beginning after December 31, 1995, certain limited partners and shareholders who own 2 percent or more of the stock in a service industry Subchapter S would be required to pay the self-employment Social Security and Medicare taxes on their non-wage income from the Subchapter S Corporation investment.

Is the use of Subchapter S corporations as a revenue raiser simply a way to reduce the Government's exposure in subsidizing premiums?

Answer. Under the proposed change, 2 percent shareholders who materially participate in a service-related business of an S corporation would be treated like partners and sole proprietors. Their income would be considered to be part of payroll for health care purposes regardless of whether it is characterized as wages. The health care plan provides significant premium discounts to small businesses based upon the number of employees and average wages. To compute the discounts, the definition of "wages" generally follows existing employment tax rules. However, the rules are modified to prevent abuse of the premium discounts by understating wages of employee-owners of S corporations.

How is this provision related to health care reform?

If the law is not changed, S corporations will be able to avoid health care premiums by qualifying for larger subsidies by disguising wages as some other form of non-wage distribution. This would lower average payroll and thus could increase the firm's eligibility for premium discounts.

HEALTH ALLIANCES

Question 1. The role of the administration's health alliances would be more than a simple purchasing co-op for small businesses. These mega bureaucracies would set market prices and control spending. Each would serve about 1 million people and require a staff of about 200. How would a bureaucracy of this size be responsive to the needs of individual small businesses?

Answer. The function of the regional alliance is to greatly reduce the administrative burden of health care costs on small businesses, which today pay much more than larger firms. The regional alliances are not a government bureaucracy. The buying group has three principal functions: negotiate with and pay the providers; collect premiums; and provide consumers with information about the cost and quality of available plans so consumers can make informed decisions. Regional alliances or purchasing cooperatives are large buying groups and their function is to shift the power of the market place in favor of consumers and small businesses away from the suppliers of health care and the insurance companies. For the first time they would truly change the supply and demand equation in favor of the small business owner. The "alliance" replaces thousands of inefficient buyers of health care with the market power of one strong buying group.

Question 2. In its current form, the administration's plan would require all firms with fewer than 5,000 employees to join a regional alliance. Over 90 percent of the work force would become members of a regional alliance. Why does the administration's plan not offer firms—regardless of size—the option to form their own pools? Why is 5,000 the magic number? Is firm size a potential place of compromise?

Answer. The question of the firm size is a difficult one, and one that many have expressed a willingness to discuss and examine in collaboration with the Congress. Different proposals now before the Congress define small employers differently—from 50 or more employees and up.

What will be important is that a large enough number be included to assure maximum consumer buying power on the one hand, and some diversity of plan providers to foster development of multiple competing health networks on the other.

The goal is not to force everyone into a government run pool, but to assure comprehensive coverage. Very large enterprises will make the calculation whether maintaining self-insurance through a corporate alliance or joining a regional alliance is more economical. It is important to note that many firms now self-insure to minimize their exposure to costs for the uninsured. Under the Health Security Act, the cost structure of the health care system as a whole will change.

Question 3. 97.5 percent of all businesses in my home State of South Dakota are classified as small businesses. Many of these businesses literally are mom and pop shops. It is my understanding that the alliances can require employers to pay their

payroll tax by electronic transfer. Many of the small businesses in my State don't have and can't afford elaborate computer programs. Will the alliance require businesses to buy computers and computer programs to comply with their reporting requirements? If so, who will be required to pay for these computers and computer programs?

Answer. There will be no electronic reporting requirement imposed on small firms.

TRADE

Question 1. It comes as no surprise that the administration's plan for health care reform will undoubtedly affect the international competitiveness of our Nation's small businesses. In the SBA's Health Care Brochure, firms actually are encouraged to believe the implementation of the Health Security Act would increase their competitiveness. How would the Act effectively work to increase the competitiveness of the 2.6 million very small firms that currently offer their employees no health benefits?

Answer. Competitiveness of very small firms that currently offer no health benefits can be achieved in the following ways. The reduction of national health expenditures projected by CBO would fall $30 billion by the year 2000. Overall business costs under reform will save employers $90 billion for active workers and $15 billion for early retirees by the year 2004. This is funding that could be spent on hiring new workers, raising wages, or investments in plant and equipment. Small businesses currently pay much higher premiums and administrative expenses than large firms do and suffer from insurance market discrimination. These costs will be reduced. Reducing health care costs will result in more funds for investment and could spur entrepreneurship and new business formation. With access to more affordable insurance, small businesses would be better able to attract workers who demand health insurance as a condition of employment. Surveys show that 10–30 percent of workers who would be interested in starting their own business are today "job-locked" because they fear as new businesses they may not be able to find coverage due to pre-existing conditions or because they are in a business that is considered to be high risk.

SBA HEALTH CARE BROCHURE AND 1–800 NUMBER

Question 1. Administrator Bowles, what was your involvement with the health care brochure and 1–800 number?

Answer. We have had many requests from Congressional Members and small businesses for the SBA to create educational and informational materials that would help businesses figure out their future health care costs under the President's Plan. Most interested business owners lack the time to sit down and read the legislation and devise a similar program on their own. When some businesses and individuals sent us their estimates of costs under the President's plan, we found significant errors in the estimates of their health insurance costs. Accordingly, we decided the SBA should help small businesses understand the President's proposal and calculate their costs under the President's plan.

Question 2. Did anyone inform you of problems with these initiatives?

Answer. I am not aware of problems with these initiatives. The SBA has an important duty, under the Small Business Act, to inform small business owners about major issues of concern, including health care reform, and to explain the President's proposals for addressing such concerns.

Question 3. Did you attend any meetings concerning SBA's health care initiatives? If so, who attended these meetings and what was discussed?

Answer. While not attending all of the meetings concerning SBA's health care initiative, I had various discussions with my staff on the subject. My lead representative has been Katie Broeren, my Chief of Staff. Other personnel have been involved where appropriate.

Question 4. Do you know of any meetings that you did not attend? Were you briefed? If so, by whom?

Answer. As indicated, my Chief of Staff has been my designated staff person on the health care reform effort. I am briefed by her on a regular basis.

Question 5. In October 1993, your central office sent all district offices the results of a survey of 30 or so firms, regarding the effects of the Health Security Act on small businesses. Why did you direct your district offices to discontinue using the results of that survey last month?

Answer. We prefer to use more current information.

Would you provide the Committee with a copy of the survey and its underlying methodology?

Yes.

Question 6. What was the involvement of the White House in SBA's health care initiatives?

Answer. The White House has cooperated fully with SBA in our initiatives on this subject.

Question 7. How was the decision made to send several thousand copies of your health care brochures to the DNC? Additionally, who made the original contact regarding the brochures—SBA employees, DNC officials, or a third party?

Answer. We were very interested in distributing copies of the brochure to small business owners and felt that the DNC (and the RNC) might be able to assist us in that regard. In response to our inquiry, the DNC requested 10,000 copies of the brochure. It subsequently paid for these copies in full.

Question 8. Why did you continue to make your health care brochure available to the public after many of its statements quickly became misleading or inaccurate as the administration's plan changed?

Answer. I do not accept your characterization. Most of the material in the brochure is still accurate. We considered adding a revised page clarifying the small business discounts, but were concerned that any such addendum might be left out of the brochure anyway. Eventually, we decided not to distribute further copies of the brochure lest it cause small business owners to estimate their costs inaccurately.

Question 9. When did you take the brochure off your on-line computer bulletin board?

Answer. The brochure was taken off the on-line computer bulletin board in early November 1993.

Question 10. Is the brochure still being distributed through any of your offices?

Answer. As indicated, we have requested our district offices not to distribute the brochure.

Question 11. Did SBA pay for the computer program for the 1–800 phone line? If so, how much did it cost? Bow many employee man hours were spent on the development and training for this program and what was the cost to the taxpayer?

Answer. The 1–800 phone line involved an expenditure of $18,400, of which all but $400 was retained because SBA equipment was used. There were approximately 48 hours spent on development and training for the program.

Question 12. According to press accounts from last November, you instructed the Office of Advocacy "to participate in" the development of a computer model to calculate the estimated costs of the President's health care reform plan on individual businesses. What was the role of the Office of Advocacy in the 1–800 number program? It is my understanding that the Acting Chief Counsel for Advocacy was heavily involved in the development of this wasteful initiative.

Answer. Again, I disagree with your characterization of our initiative as "wasteful". The Office of Advocacy was not involved directly in the development of the computer program, but did assist in running it for a variety of small businesses. The Acting Chief Counsel was very supportive of the agency's efforts to educate and inform small business owners concerning health care reform.

QUESTIONS FROM SENATOR BURNS FROM THE STATE OF MONTANA

Question 1. The Health security Act imposes a mandate on all employers to pay 80 percent of the health insurance premium not only for their full-time employees and their dependents, but also for part-time and seasonal workers as well. To me this is a payroll tax—the most burdensome tax of all for any small business. Its a tax that must be paid regardless of the firm's financial health. And given the First Lady's comments about the government not being responsible for saving every undercapitalized business in American, I am not sure the administration realizes how negatively this government mandate could affect small businesses. How do you see this affecting America's small businesses, the only sector of our economy that is growing in our country?

Answer. The administration believes that the current health care system is anti-small business. For a small business owner to try and sit down to negotiate with an insurance company today, it is a non-negotiation. All of the power of the marketplace is on the side of the provider and the insurance company. In addition, the small business owner has to take time away from his or her employees, from man-

aging their business, and from their customers in order to try to negotiate with an insurance company.

Clearly, there is a health care crisis in this country for small business, and small businesses have done all they can to hold down the cost of health care. Small businesses have tried switching programs, managed care, self-insurance, reducing benefits, passing along a bigger share of the cost to their employees, and nothing has worked. The cost of health care continues to grow at an extraordinary rate. Unfortunately, the smaller the business, the more disproportionate the costs. The Congressional Budget Office found that the Health Security Act will benefit smaller firms that typically pay much higher premiums than larger firms.

Question 2. The administration has repeatedly said that most small businesses are already covering health insurance for their employees, so the impact would be minor. According to the Health Insurance Association of America, 3 million firms employ 4 or fewer employees. This makes up 60 percent of all American employers. Of these 3 million, 76 percent do not currently offer health insurance to their employees, primarily because they cannot afford it. Tell me, what do you think they will need to do to be able to meet these mandates?

Answer. Under the President's plan health care will be affordable to small businesses. The plan provides discounts for those firms that most need them. Small businesses will be offered discounts and pay no more than 7.9 percent of payroll. The smallest businesses (with fewer than 75 employees) will often pay even less than 7.9 percent, between 3.5 and 7.9 percent, depending on their average payroll. By pooling their resources together into regional alliances, small businesses, including the self-employed, will obtain the same purchasing power that large corporations enjoy today. A recent Health and Human Services study supports this: The study estimates that employers who now purchase insurance for their workers will save on average $605 per worker on premiums in the year 2000. That represents a total savings of $59.5 billion in the year 2000. The same study concludes that small companies with fewer than 25 employees that currently provide insurance will save an average of $771 per worker on premiums and will see their premiums as a percent of payroll drop from an average of 9 percent to 6 percent.

QUESTIONS FROM SENATOR MACK FROM THE STATE OF FLORIDA

Question 1. Let's look at a family of four—dad has a full-time job, mom has two part-time jobs, the older daughter is away at college, and the young son has a part-time job after school. That's four employers for this family. Under the Clinton plan, no employer or combination of employers for a family would have to pay more than 80 percent of the premium. Please explain how this will work: What are the reporting requirements for each employer? To whom do they provide the information?

Answer. An employer is required to contribute to premiums and report information only for individuals who are "qualifying employees." If a young worker is under age 18, or a full-time student under the age of 24, and is his or her parents' dependent, he or she is not a "qualifying employee." A part-time worker who works fewer than 40 hours per month at a particular job is not a "qualifying employee" of that employer. Thus, it is likely that in the case of your family, the son's employer and one or both of mom's employers will not be required to contribute premiums or report information for them.

In the case of qualifying employees, employers must report annually the total number of months that each employee worked full-time and part-time, and the total amount deducted from wages for the employee's share of the premium. Employers also report the total premium payments made for all qualifying employees and the number of qualifying employees.

On a monthly basis, employers will be required to pay premiums and list the total number of qualifying employees working full-time and part-time, the number of hours employees work, the employer premium contributions made for each employee, and the employee's health insurance policy status.

How long do they have to maintain the records?

This is not specified by President's proposal.

Are they required to provide it to employees?

Employers are not required to provide this information to employees. However they must, on an annual basis, provide the following information: The individual's total number of months wages and the total amount deducted from their wages, exactly, for tax reporting purposes as today.

Who determines if the combination of employer contributions is more than 80 percent?

Under the Clinton plan, for a qualifying employee with family coverage, each employer pays 80 percent of an "adjusted premium" for a qualifying full-time employee (working at least 120 hours per month). The employer pays a pro-rata share for a qualifying part-time employee (working between 40 and 120 hours per month).

The adjusted premium is determined by the regional alliance. It is based on the average number of workers per family for the regional alliance. These balance out so that employer contributions within a regional alliance for all families together are 80 percent of the weighted average premiums for families.

By using this flat per-worker premium system, we have removed one of the greatest sources of complexity and unfairness in the current system: Coordinating and tracking premiums, payments, and coverage for families with multiple workers.

Do alliances have the authority to audit small business owners' records?

Yes, if it appears that the businesses has been misleading or underreporting information to the alliance.

Do alliances have to give notice to the small business owners that an audit is forthcoming?

This is not specified under the President's plan.

Will small business owners be able to have CPA's present at audits?

This is not specified under the President's plan.

Are small business owners responsible for paying CPA's to attend audits?

This is not specified under the President's plan.

If an error is made, will there be interest and penalty charges?

Regional alliances will use credit and collection procedures, including the imposition of interest charges and late fees for failure to make timely payment, as necessary.

What appeal rights do small business owners have if they disagree with alliance auditors?

This is not specified under the President's plan.

These reporting requirements are on top of other unfunded mandates and paperwork requirements from OSHA, EPA, IRS, Social Security Administration and a myriad of State and local departments and agencies. At what point do we say enough?

To be effective, any health reform plan would require some enforcement mechanism. We feel that an employer-based system provides an efficient enforcement mechanism, in part because employers already comply with a variety of other benefit withholding requirements, such as for Social Security. In addition, there are only 5 million employers, where there are 220 million non-elderly persons who would have to be tracked under a plan which did not provide for employer withholding and reporting. Such a system would be more administratively complex and harder to enforce. As a result, the enforcing agencies would have ever expanding resource needs, which would result in ever larger appropriations requests.

Question 2. "Jeanne is 73 years old. She's bright, active and puts in 20 hours a week. She needs the extra income to supplement her Social Security income. If I'm forced to pay for her health care, she will lose her job."

From the workers' standpoint, this (the employer mandate) is another economic roadblock to economic freedom. After all, they are subject to the Social Security Earnings test, the recently passed Social Security Benefits tax hike, capital gains taxes on investments and the like. Why should we punish older workers who seek to supplement their incomes?

Answer. Older individuals who work part-time will not be punished by the Clinton plan. They will receive the same guaranteed comprehensive benefit package as other workers, with the same premiums as those other workers. And on average they will pay less for these benefits than they would have paid for coverage under Medicare Part B.

Employers may find the cost of covering the older worker to be lower than expected. In the case of a part-time worker employed more than 40 hours a week, the employer pays a portion of the employer's share of the premium for a full-time employee. In Jeanne's case, the employer would pay about 54 percent of her insurance premium. (If the employer was eligible for discounts, it might pay a smaller share.) Because the Clinton plan requires insurers to community rate premiums and prohibits rating based on the worker's age, the premium of an older worker, such as Jeanne, would be no higher than the premium of any other part-time worker. If the

employer currently provides health care for other employees, the substantial savings realized by the employer may mean that the employer's total health care costs, even with the cost of covering the older worker, will be reduced.

In general, as the non-partisan CBO has stated, "The Clinton plan . . . would not significantly slow the economy or result in the loss of jobs, as many critics have charged." Comprehensive health care reform is a necessary element in a strategy to increase long-term economic growth, reduce the deficit, and create new jobs. In fact, two independent studies, one from the Economic Policy Institute and one from the Employee Benefit Research Institute, predict that jobs will be created as a result of health reform.

Question 3. Small business subsidies are available to firms with average wages of below $24,000. Just yesterday, however, the Labor Department reported that wages and benefits increased by only 0.6 percent after inflation. Doesn't this approach encourage lower wages?

Answer. While subsidies could encourage some firms to limit their size, we cannot precisely predict the reaction of individual firms to the incentives of the subsidies. The subsidies are graduated by the amount of discount, the number of employees, and the small business's average payroll in order to lessen the incentive for any company to manipulate their workforce by keeping their employment below a specific level to obtain a large discount.

Also, won't this arrangement mean that one small business might pay the full 80 percent employer part with no subsidy, while a competitor pays its employees low wages in order to get a higher Federal subsidy?

How does this approach live with the administration's rhetoric about a high-wage, high-skill economy? The subsidies would be going to many old technology firms. To me, the better approach would be to also provide the subsidy to high-tech, high-salary small businesses.

The subsidies are based on making health insurance premiums affordable to low-wage, small businesses who would truly not be able to afford the premiums even after reform. The following is an example of what these discounts mean to the small business community. The National Association of the Self-Employed came out with a study that says that the average small business today that does not offer health care has an average payroll of about $7,600. If this is true, that small business is going to be able to offer it's employees comprehensive insurance, at a cost of less than $1 a day—a total cost of $266.00 a year. That's something that small business can afford.

That same study says that the average small business that does offer health care to its employees has an average payroll of $15,600. Well, if that is true, that small business is going to be able to offer its employees real, comprehensive insurance, for a cost of about $2.27 a day, or $827 a year.

Question 4. What's wrong with permitting small businesses to simply pool their resources to form their own health alliances and avoid having to write checks to a government pool over which they have no control?

Answer. The Clinton plan requires all small and mid-sized employers (with up to 5,000 employees) to join a regional alliance to create a sizable pool; undoubtedly this pool would be larger than any health alliance voluntarily created by small firms in the same area. The size of this pool is crucial to making it possible for insurers to offer low-cost community-rated premiums. The larger the pool, the greater the employers' negotiating strength will be, and the better able it will be to spread risk.

The regional alliances will not be government controlled pools; on the contrary, they will be operated by the consumers and employers whose interests they protect. The States have a great deal of flexibility in the creation of regional alliances: they can be nonprofit organizations, public corporations or State agencies. Regardless of the form the regional alliances take, the governing board will be made up of equal numbers of employers and consumers.

Can many small businesses pool to the point that they have 5,000 in their pool and they opt-out of the mandated alliance participation? Why not?

The Clinton plan does not permit small businesses to group their employees to reach 5,000 employees in the aggregate to opt-out of mandated alliance participation and form a multiple employer welfare arrangement, or MEWA. MEWA's have been eliminated because, frankly, they have created the kinds of problems in our health system that cry out for reform.

Under current law, a significant number of MEWA's have, over the past several years, created tremendous problems for participants, employers, State regulators and the Department of Labor. These abusive and fraudulent MEWA's have bilked participants and employers out of hundreds of millions of dollars in premiums and

unpaid claims. Moreover, States and the Federal Government have devoted vast resources and time to investigating, indicting, and prosecuting unscrupulous or fraudulent MEWA promoters and operators, without significant success in recovering claims for participants.

We believe that by eliminating MEWA's and creating regional alliances, we can preserve the best aspects of the MEWA-type structure (i.e.—pooling small and medium-sized employers together for purchasing power and community rating), while preventing the fraud and abuse perpetrated by many MEWA operators today.

We believe that the ability to form a corporate alliance generally should be limited to those with strong employment based relationships. The union negotiated multiemployer health plans and the rural telephone and electric cooperative health plans are exempted from the regional alliance requirement because they have unique characteristics that make them suitable to be part of the reformed health system. Union plans, when negotiated pursuant to a collective bargaining agreement, offer greater reliability and accountability than MEWA's. Rural telephone and electric coops, because they have developed a way in which to successfully cover rural populations, are performing an important service that should not be dismantled. Moreover, union plans and rural coops, should they elect to continue under the Clinton Plan, will be required to meet the Federal standards for corporate alliances, standards which most MEWA's could not meet.

Question 5. Mr. Bowles, you mentioned in your testimony that the Health Security Act provides tax credits for capital expenditures for doctors and tax credits for providers to locate in rural communities. Why not provide the same tax credit relief to individuals to purchase insurance?

Answer. The Health Security Act is a plan that will build on the present employer-based system of employer and employee shared responsibility. Nine out of ten people who have private insurance today get coverage through their employers. The administration believes it is the most efficient and non-disruptive way to deliver health insurance to individuals. The plan maintains the tax preference of employer provided health care. The plan assists low-income individuals by offering discounts when purchasing their health insurance.

QUESTIONS FROM THE TRANSCRIPT

Senator HEFLIN. If an insurance company did not have a pre-existing condition clause, what would the additional cost be?

There has been little research to date focusing on the added cost of covering services associated with pre-existing conditions. The Health Insurance Association of America (HIAA) has initiated a survey of member firms addressing this issue, but final estimates have not yet been compiled. However, based on preliminary information from this survey, the claims cost associated with pre-existing conditions can range from .75 to 5 percent of covered charges, with the average estimated to be approximately 1 percent of covered charges. (Note that these percentages would be lower if pre-existing condition related costs were expressed as a percentage of premium, since premiums cover other expenses in addition to claims costs.

Senator BUMPERS. Discussion centered around employers not providing health coverage to persons under 18 or persons under the age of 23 who are full-time students. How about if you are dependent on your parents even though you are not a student?

Persons under the age of 18 (or under the age of 24 if they are full-time students) are included under their parent(s)' coverage if they are dependents of their parent(s). The National Board is directed to promulgate rules for coverage of persons under age 19 who are not dependents. If you are under the age of 23 and not a full-time student and a dependent of your parents the family will remain free to decide how each family member will participate in the life and activities of the family, including how each will contribute to health care costs.

Senator KEMPTHORNE. Wants a list of the trade groups that support the Clinton plan.

Attached, please find a list of trade groups that support the President's Plan.

What is the status of a disaster loan in Lewiston, Idaho?

On March 10, 1994 after the Senate Small Business Committee hearing, as Administrator Bowles predicted, the disaster request was waiting on his desk and the Administrator signed it. Fourty-five individuals were interviewed and 45 applications where sent out. Fourteen applications have so far been sent back for processing.

Senator PRESSLER. Under the Clinton Plan, government-run health alliances cannot cross State lines. If someone comes for treatment from another alliance, would they need to provide "paper" to get them in?

Under the Health Security Act, individuals will be issued Health Security Cards encoded with individual, health plan, and health coverage identifiers. In conjunction with an electronic data network linking all health alliances and health plans to a central database, Health Security Cards are designed to enable "paperless" access to both local and out-of-State health care services.

How will the premium add-on work? Is there any limit on how much employers can be assessed from premium collection shortfalls?

A State must provide a guaranty fund for health care providers and others in the event of a health plan's failure. Plan failure means current or imminent inability of a plan to pay claims. The State may require each regional alliance plan to pay an assessment to the State of up to 2 percent of annual premiums paid by regional alliance members for as long as necessary to guaranty claims in the case of a failed plan.

Provide a list of small business groups supporting the Clinton Plan.

Attached is a list of small business groups supporting the President's plan.

Senator LEVIN. What percent of payroll do small businesses with fewer than 25 employees pay for health care?

According to the 1993 EBRI study, which used the March supplement to the 1992 Current Population Survey and the National Medical Expenditure Survey, firms with less than 10 employees paid on average 13.5 percent of their payroll for health insurance and firms between 10 and 24 employees paid 10.8 percent of payroll for health insurance. These percentages constitute only the employers contribution not the total cost of the health plans.

How many people are self-employed? Senator Bumpers quoted between 15 and 17 million. Senator Levin wants a breakdown as to what the average premiums is for people who are self-employed?

According to the Bureau of Labor Statistics, in February of 1994 there were a total of 10,945,000 self-employed individuals. This is broken down into 1,633,000 in agriculture employment and 9,312,000 in non-agriculture employment. According to the National Association for the Self-Employed, on average, self-employed pay premiums of $189 a month or $2,268 a year.

ADDITONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF JOHN HEXTER, PRESIDENT, HEXTER AND ASSOCIATES, CHAIRMAN, GROUP SERVICES, INC.

Mr. Chairman, Members of the Committee:

Access to affordable health care coverage is not just an issue of domestic economic policy, nor a political priority; most small business owners cite the issue as one of the most intractable business problems they face from day to day. We commend the administration and the Congress for taking up the issue and making the commitment to dealing with the task of reform. We believe that in Cleveland, Ohio, the council of smaller enterprises' (COSE) small group purchasing alliance might represent part of the solution to the health care problems facing the country today. We thank the Committee for the opportunity to share our story.

My name is John Hexter. I am the president of a small printing company, Hexter and Associates, which I am proud to say has 6 full time employees. I am also the chairman of Group Services, Inc.—the non-profit structure COSE has put in place to manage the on-going activities of COSE's benefits programs. I hope to outline COSE's alliance activities and provide answers. Based on our experiences, regarding the role of alliances in a national health care reform policy.

For over 20 years, the council of smaller enterprises (COSE, as we affectionately call ourselves) has been hard at work in tackling the dual challenges of access and affordability in health care coverage for small employers in our community. Our efforts have helped us to become not just the largest organization of our kind in the country, but also nationally recognized as the operator of one of the Nation's largest proprietary group health plans for small employers.

COSE has about 14,000 member companies, of which over 11,000 participate in at least 1 of our 15 sponsored health care plans. Those companies provide coverage to almost 80,000 area employees and, when we include their families, about 190,000 greater Clevelanders. Our members will invest over $220 million in group health

care premiums in this contract year, making COSE the largest purchaser of health insurance in the State of Ohio.

A number of things are unusual about our plans:

- First, while the group is very large, the size of its individual participants is very small; participating companies have an average of about 7 employees. COSE, by the way, defines a small business as an entity with 1 to 150 employees. Given that the majority of the working uninsured are employed by companies with fewer than 10 employees, we believe our program has a great impact on that part of the market where the access/affordability dilemma is most severe;
- Second, as we have surveyed every new member company which has joined our program over the years, we've found that about 20 percent of the companies joining our plans didn't have group coverage before. So while our programs are not specifically designed for uninsured employers, they have increased access to coverage for a significant number of small companies and about 40,000 individuals;
- Third, the vast majority of companies joining our plans, those that do provide coverage for their employees, tell us that joining our programs reduces their health insurance costs between 30 and 50 percent. Those savings enable many small business people to improve the benefits they offer to their workers and still pay less for their coverage.
- Despite our lower prices, our costs are very stable. The trend factor increases charged by commercial insurers to individual small groups in the Cleveland area have raised the cost of coverage by an average of 170 percent since 1986. The prices COSE members pay have increased a total of 63 percent over the same period. And our insurer is making money. Having just concluded our rate negotiations for this year, I am pleased to report that in July of this year, COSE members will experience on average increase of 2.85 percent—the lowest in our history. The 2.85 percent increase compares to an average 14.5 percent increase this year for the 7 largest commercial insurers offering small business health plans in the Cleveland market.

There are many reasons for our relative success.

- COSE has used market forces to make the economics of health care work for our members. While the number of COSE participants is quite large, it is important to remember that we started very small—with about 2,500 lives.
- COSE benefit programs are operated by people like me. When I make a decision as a board member regarding our programs, I then have to go back to Hexter and Associates and explain how the changes are going to impact my employees and their families. And then I have to go home, and explain the same thing to my family. I can tell you, it makes me think twice before I put myself, my family and my employees' health care at risk.
- Over time, we've built a group which enjoys great actuarial credibility, enabling us to keep costs predictable. COSE "owns" the data on our group—general information about claims experience, utilization and costs. This gives us the ability when we negotiate to look our carriers in the eye and talk to facts . . . and put aside the fears that carriers sometimes have when dealing with the small group market.
- We manage our programs aggressively, with a special focus on driving down administrative costs. We can attribute a great deal of our members' savings to the administrative side of the equation. COSE members' total administrative costs are about 12 percent of premium—as compared to 25 to 40 percent of premium in the small group market generally. Contrary to public opinion, we do not realize savings by dealing with the risk side of the equation.
- We are effective advocates on our members' behalf. Whether it's a claim that has been refused or a specific provision of our contract that is unclear, COSE uses its clout as the biggest customer of our carriers to fight on behalf of individuals.

What can be learned from our experience?

One is that the market can work. COSE is entirely a creature of market forces, and our experience shows that the private sector can be effective in the voluntary marketplace. We have found ways to attack these issues by being creative, taking a few calculated risks, and making some tough decisions.

COSE also believes that the market is a powerful regulator. The fact that COSE members have the freedom to leave if they don't feel we are responsive to their needs keeps us on our toes. Voluntary, competing alliances must be preserved if we

are to keep the pressure up. The right to shop is absolutely crucial to continuing accountability to participating employers and workers.

Second, alliance programs must be operated by the purchasers of coverage. COSE was part of an effort in Ohio to create a State law regarding the formation of voluntary alliances. The alliances are required to set up a governing body composed of small business owners. Insurers, providers and others are our vendors—not our owners.

The primary role of the alliance must be that of advocate for purchasers and subscribers. We should leave the regulation of insurance practices and solvency issues in the hands of the folks who do it best—State insurance departments.

Fourth, and forgive me for repeating myself, but I do believe this is important, we must preserve the right of the alliance to "shop" among carriers. It is COSE's experience that it is better to be the biggest customer of a limited number of carriers than it is to be a modest-sized customer of a large or unlimited number of carriers.

Because of our negotiating clout, COSE has been able to negotiate with our carrier over a number of insurance industry practices and effectively change the way our carrier does business in the small group market. For example, COSE coverage has no preexisting condition exclusions, is portable (meaning that any person can come to work for a COSE company or can move between COSE companies—and be admitted without medical underwriting), renewability of coverage is guaranteed and our members' prices are set and maintained using a modified community rating methodology. In addition, COSE is able to guarantee access to coverage to anyone who applies. Generally speaking, only with the threat of reform over its head has the insurance industry in general become willing to even talk about those issues.

Finally, I think we've re-learned that the delivery and financing of health care is primarily a local issue. No matter how comprehensively we may wish to pursue reform, those reform attempts will fail ultimately unless they are built with sufficient flexibility to enable local communities, especially local purchasers, to design and manage delivery systems that meet those communities' unique needs.

The COSE alliance exists, has a long record of success, and deserves your consideration as a model for private-sector group reform.

Mr. Chairman, thank you for allowing us to share our story. We would be happy to answer any questions that you might have.

We will stand in recess, subject to the call of the Chair.

[Whereupon, at 12:55 p.m., the Committee was adjourned, subject to the call of the Chair.]

[The prepared statements of Senator Heflin and Senator Lautenberg follow:]

PREPARED STATEMENT OF SENATOR HOWELL HEFLIN FROM THE STATE OF ALABAMA

Mr. Chairman, as I am sure the case is in with you and every other Senator on this Committee, my office has been inundated with mail and phone calls on health care reform. If the correspondence I have received over the past few months is any indication, it would seem that there is now a national consensus that our health care infrastructure is in crisis, and that something must be done to reform the system and lower its costs. It is the great issue of our time. But, for any meaningful reform to be enacted into law, it is essential to exhaustively analyze and discuss the specific problems that are driving the current debate.

One of the most commonly recurring concerns I hear from Alabamians is that employer mandates—the primary source of funding for President Clinton's health care reform proposal—will be devastating to the small business community. This may or may not be true, but I feel that it is a matter that deserves the utmost attention and scrutiny by this Committee. On that note, I am pleased to have the opportunity today to discuss this matter with Secretary Reich and Administrator Bowles. I look forward to hearing their testimony on the impact health care reform will have on economic growth and job creation in the small business sector of our economy.

PREPARED STATEMENT OF SENATOR FRANK R. LAUTENBERG FROM THE STATE OF NEW JERSEY

I would like to thank both the Secretary and the Administrator for joining us today to discuss how health care reform will impact economic growth and job creation in small business.

I think all of us on this Committee support the goal of guaranteed private health insurance for all Americans. However, the means by which to reach that end must not result in the wide-spread bankruptcy of small businesses.

As the Secretary will most likely mention, most small businesses do a commendable job insuring their employees. According to various studies, approximately 60 percent of smaller employers offer health insurance. If health insurance plans were more affordable to small business owners, that percentage would jump dramatically.

The inequity in costs of insuring employees that currently exists between small and large businesses must be eliminated. Small businesses now pay about 35 percent more than their larger counterparts because they lack bargaining power and there are fewer employees over which to spread the risk of insurers. Administrative costs for small businesses are exorbitantly high. Currently small businesses that provide insurance face administrative costs of up to 40 percent, while larger businesses face costs of only 5 percent. Moreover, smaller firms do not benefit to the same extent as larger employers from the tax advantages associated with offering health insurance.

The competitive advantage that employers who do not provide health insurance to their workers have over those firms that do also needs to be eliminated. The removal of the free-rider problem that now confronts those businesses which provide coverage for both their workers and their working spouses should help alleviate some of the costs with which these employers are confronted.

We need to ensure that any costs to employers will not result in a loss of jobs or a reduction in wages. I believe that the administration has done a fine job keeping these concerns in mind when drafting the Health Security Act of 1993; however, I am worried about our ability to afford the projected cost of Federal subsidies for employers, which according to the Congressional Budget Office will be $102 billion by 2004.

I support allowing our smaller businesses to form purchasing cooperatives in order to obtain health insurance. Such pooling would enable these firms to take advantage of economies of scale and price competition between plans. I am not convinced that cooperatives on the scale of regional alliances are needed to ensure that small businesses have access to affordable health insurance plans. Furthermore, the new bureaucracy that could result from the creation of such large alliances would outweigh the benefit of their increased purchasing power.

In conjunction with purchasing cooperatives, the utilization of a community rating system is necessary to protect small businesses. Today, if an employee of a small firm becomes seriously ill, his or her illness could cause the premiums of the other employees to skyrocket. By using community rating, small businesses would no longer be subject to such discriminatory practices as age-rating, which currently drives up the cost of insurance.

The point, Mr. Chairman, is simply this: we have to protect both human and economic health. This hearing is an important part of making sure we do just that.

Again, thank you for coming here today and I look forward to hearing your testimony.

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ISBN 0-16-046256-8

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